

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Gratiot County</b>	County <b>Gratiot</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>12/2/05</b>	Date Accountant Report Submitted to State: <b>3/13/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

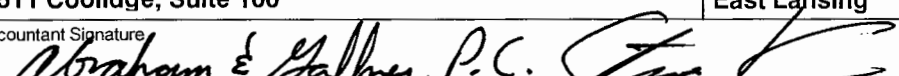
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Abraham &amp; Gaffney, P.C.</b>			
Street Address <b>3511 Coolidge, Suite 100</b>	City <b>East Lansing</b>	State <b>MI</b>	ZIP <b>48823</b>
Accountant Signature 		Date <b>3/13/06</b>	

**Gratiot County, Michigan**  
**FINANCIAL STATEMENTS**  
**September 30, 2005**

Gratiot County, Michigan

September 30, 2005

BOARD OF COMMISSIONERS

Richard Gay	Chairperson
Greg Carlson	Vice Chairperson
Trenton Wilhelm	Commissioner
Jan Bunting	Commissioner
Roger Cook	Commissioner
Linton Chapin	Commissioner
Roland Merignac	Commissioner

ADMINISTRATION AND OTHER ELECTED OFFICIALS

Daniel Skiver	Administrator
Mary Sullivan	Treasurer
Carol Vernon	Clerk
Janet Davis	Register of Deeds
Brian Denman	Drain Commissioner
Keith Kushion	Prosecuting Attorney
Robert Beracy	Sheriff

Gratiot County, Michigan

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ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Gratiot County, Michigan as of and for the year ended September 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gratiot County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Gratiot County Road Commission, which represents 81% and 87%, respectively of the total assets and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the audit of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Gratiot County, Michigan as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005 on our consideration of Gratiot County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gratiot County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 2, 2005

## **County of Gratiot**

### **Management's Discussion and Analysis**

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#### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a discussion and analysis of Gratiot County's (the County's) financial performance and position, providing an overview of the activities for the fiscal year ending September 30, 2005. This analysis should be read in conjunction with the *Independent Auditors Report*, beginning on page i of this report, and with the County's financial statements, which follow this section. Certain limited financial information is presented with respect to the Gratiot County Road Commission in the Management Discussion and Analysis. The reader should refer to the Road Commission's separately issued financial statements for more detailed information.

#### **FINANCIAL HIGHLIGHTS**

##### **Government-wide:**

- The assets of the County exceeded its liabilities at the close of fiscal year 2004 by \$11,323,254 (net assets). Of this amount, \$5,866,554 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The governments total net assets increased by \$293,372 (excluding component units) from the prior fiscal year.
- As the close of the fiscal year, the County's governmental activities funds reported combined net assets of \$6,267,789, an increase of \$585,460 from the prior fiscal year.
- At the close of the fiscal year, the County's business-type activities funds reported combined net assets of \$5,055,465, a decrease of \$292,088 from the prior fiscal year.
- At the close of the fiscal year, the County's component units reported combined net assets of \$34,669,882, an increase of \$880,682.

##### **Fund Level:**

- At the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$1,909,108, an increase of \$19,369 in comparison with the prior year. Approximately 68 percent of this amount, \$1,293,915, is available for spending at the government's discretion (unreserved fund balance).
- The General Fund realized \$12,912 less in revenues and other financing sources than anticipated for the fiscal year. However, General Fund operations also expended \$217,573 less than appropriated.

##### **Capital and Long-term Debt Activities:**

- The primary government issued no new debt for the fiscal year.
- The total long-term debt for the primary government was \$4,137,784 with a net reduction of \$163,449 from the prior year.
- The Drainage Districts issued \$559,200 in new long-term notes.
- The total long-term debt for the component units (Drainage Districts and Board of Public Works only) was \$2,045,595 with a net increase of \$201,825 from the prior year.
- The long-term debt for the Road Commission was \$330,023.
- The County remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government was \$284,313 (including depreciation) and included such purchases as eight sheriff patrol vehicles, 2 pickup trucks for the Park Department, two mowers for the Parks Department, and initial progress payments on the radio system and voice logging system for the new Central Dispatch Facility.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual financial report of the County consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis*, and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and other *Supplementary Information* including combining financial statements for all nonmajor governmental funds and proprietary funds.



## County of Gratiot

### Management's Discussion and Analysis

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#### Government-wide Financial Statements (Reporting the County as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the County as a whole, and about its activities. Their purpose is to assist in answering the question, is the County, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all the County's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the County's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the County's net assets changed during fiscal year 2005. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the County's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the County's general government departments, law enforcement, the courts, the Board of Commissioner operations, and other countywide elected official operations are reported under these activities. This also includes the special revenue funds such as the Commission on Aging and Friend of the Court Funds.
- **Business-type Activities** - These activities operate like private businesses. The County charges fees to recover the cost of the services provided. The Gratiot County Jail Commissary Fund and the Delinquent Tax Fund are examples of these activities.
- **Discretely Presented Component Units** - Discretely Presented Component units are legally separate organizations for which the Board of Commissioners appoints a majority of the organization's policy board and there is a degree of financial accountability to the County. Four organizations are included as component units: the Department of Public Works, the Road Commission for Gratiot County, the Central Dispatch Authority, and the Drainage Districts.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental funds; however depreciation expense is reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.
- Long-term liabilities, such as reserves for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.

## County of Gratiot

### Management's Discussion and Analysis

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- Bond proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, it should be noted that the government-wide financial statements include the net value of the County's general capital assets such as buildings, land, cars, computer equipment etc. These values are not included in the fund financial statements.

#### **Fund Financial Statements (Reporting the County's Major Funds)**

The fund financial statements, which begin on page 3, provide information on the County's significant (major) funds, and aggregated nonmajor funds. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the County uses to keep track of specific sources of funding and spending for a particular purpose. State law or policy requires some separate funds, such as the Commission on Aging and Child Care Fund; other funds are required by bond or grant agreements, such as the Friend of the Court Fund. Funds are also utilized to track specific operations; these include the internal services funds (e.g., Fringe Benefit) as well as enterprise funds such as the Jail Commissary and Delinquent Tax.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for Gratiot County include the General Fund, the Revenue Sharing Reserve, and the Delinquent Tax Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The County includes detailed information on its nonmajor funds in other supplementary sections of this report.

The County's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the County's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the County's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).
- **Proprietary Funds** - Services for which the County charges customers (whether outside the County structure or a County department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Soil Erosion Inspection Fund. *Internal Service funds* report activities that provide supplies or service to the County's other operations, such as the Fringe Benefit Fund. Internal Service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary Funds** - The County acts as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The County's fiduciary activities are reported in separate statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 10. These funds, which include trust and agency funds and the Library (Penal Fines) Fund, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the County to fund its operations.

## County of Gratiot

### Management's Discussion and Analysis

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#### Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 14 of this report.

#### Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

#### Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental, proprietary, and fiduciary funds. These funds, except for the fiduciary funds, are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

### FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As previously stated, Gratiot County's combined net assets were \$11,323,254 at the end of this fiscal year's operations. The net assets of the governmental activities were \$6,267,789; the business type activities were \$5,055,465.

#### Gratiot County Net Assets FY ending 2005 and ending FY 2004

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 2,618,138	\$ 2,343,118	\$ 5,128,399	\$ 5,449,552	\$ 7,746,537	\$ 7,792,670
Capital Assets	<u>8,421,043</u>	<u>8,136,730</u>	<u>-</u>	<u>-</u>	<u>8,421,043</u>	<u>8,136,730</u>
<b>Total Assets</b>	<b><u>\$ 11,039,181</u></b>	<b><u>\$10,479,848</u></b>	<b><u>\$ 5,128,399</u></b>	<b><u>\$ 5,449,552</u></b>	<b><u>\$16,167,580</u></b>	<b><u>\$ 15,929,400</u></b>
Current Liabilities	\$ 899,497	\$ 711,941	\$ 72,934	\$ 101,999	\$ 972,431	\$ 813,940
Other Liabilities	<u>3,871,895</u>	<u>4,085,578</u>	<u>-</u>	<u>-</u>	<u>3,871,895</u>	<u>4,085,578</u>
<b>Total Liabilities</b>	<b><u>\$ 4,771,392</u></b>	<b><u>\$ 4,797,519</u></b>	<b><u>\$ 72,934</u></b>	<b><u>\$ 101,999</u></b>	<b><u>\$ 4,844,326</u></b>	<b><u>\$ 4,899,518</u></b>
Net Assets						
Invested in Capital Assets (Net of related debt)	\$ 4,899,327	\$ 4,399,359	\$ -	\$ -	\$ 4,899,327	\$ 4,399,359
Restricted	557,373	611,136	-	-	557,373	611,136
Unrestricted	<u>811,089</u>	<u>671,834</u>	<u>5,055,465</u>	<u>5,347,553</u>	<u>5,866,554</u>	<u>6,019,387</u>
<b>Total Net Assets</b>	<b><u>\$ 6,267,789</u></b>	<b><u>\$ 5,682,329</u></b>	<b><u>\$ 5,055,465</u></b>	<b><u>\$ 5,347,553</u></b>	<b><u>\$11,323,254</u></b>	<b><u>\$ 11,029,882</u></b>

## County of Gratiot Management's Discussion and Analysis

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the County's net assets changed during the fiscal year:

### Gratiot County's Changes in Net Assets for the Fiscal Year Ending September 30, 2005

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Revenues</b>						
Charges for Services	\$ 2,907,309	\$ 3,036,733	\$ 245,374	\$ 263,251	\$ 3,152,683	\$ 3,299,984
Grants & Contributions	2,822,968	2,604,444	-	-	2,822,968	2,604,444
General Revenues						
Property Taxes	6,462,612	4,603,141	-	-	6,462,612	4,603,141
State Shared Revenue	-	656,507	-	-	-	656,507
Investment Earnings	29,340	18,282	89,657	76,060	118,997	94,342
Miscellaneous	61,651	51,828	47,288	-	108,939	51,828
<b>Total Revenues</b>	<b>12,283,880</b>	<b>10,970,935</b>	<b>382,319</b>	<b>339,311</b>	<b>12,666,199</b>	<b>11,310,246</b>
<b>Expenses</b>						
General Government	5,125,932	5,010,360	-	-	5,125,932	5,010,360
Public Safety	3,387,739	3,001,948	-	-	3,387,739	3,001,948
Public Works	10,476	10,083	-	-	10,476	10,083
Health and Welfare	3,080,622	2,931,440	-	-	3,080,622	2,931,440
Community and Economic Dev.	352,309	222,273	-	-	352,309	222,273
Recreation & Cultural	140,311	1,053	-	-	140,311	1,053
Unallocated Depreciation	-	-	-	-	-	-
Interest on long-term debt	179,238	190,519	-	-	179,238	190,519
Delinquent Tax	-	-	3,936	18,747	3,936	18,747
Other	-	-	95,471	96,191	95,471	96,191
<b>Total Expenses</b>	<b>12,276,627</b>	<b>11,367,676</b>	<b>99,407</b>	<b>114,938</b>	<b>12,376,034</b>	<b>11,482,614</b>
Excess (deficiency) Transfers	7,253	( 396,741 )	282,912	224,373	290,165	( 172,368 )
	575,000	324,233	( 575,000 )	( 324,233 )	-	-
<b>Increase (decrease) in Net Assets</b>	<b>582,253</b>	<b>( 72,508 )</b>	<b>( 292,088 )</b>	<b>( 99,860 )</b>	<b>290,165</b>	<b>( 172,368 )</b>
Net Assets - Beginning	5,682,329	5,722,866	5,347,553	5,453,766	11,029,882	11,176,632
Prior Period Adjustment	3,207	31,971	-	( 6,353 )	3,207	25,618
<b>Net Assets - Ending</b>	<b>\$ 6,267,789</b>	<b>\$ 5,682,329</b>	<b>\$ 5,055,465</b>	<b>\$ 5,347,553</b>	<b>\$ 11,323,254</b>	<b>\$ 11,029,882</b>

### Governmental Activities:

The result of fiscal year 2005 governmental activity was an increase of \$585,460 in net assets, including prior period adjustments, to \$6,267,789. Of the total governmental activities' net assets, \$4,899,327 is invested in capital assets less related debt, \$557,373 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the County government. The balance of \$811,089 is listed as unrestricted, having no legal commitment.

## County of Gratiot Management's Discussion and Analysis

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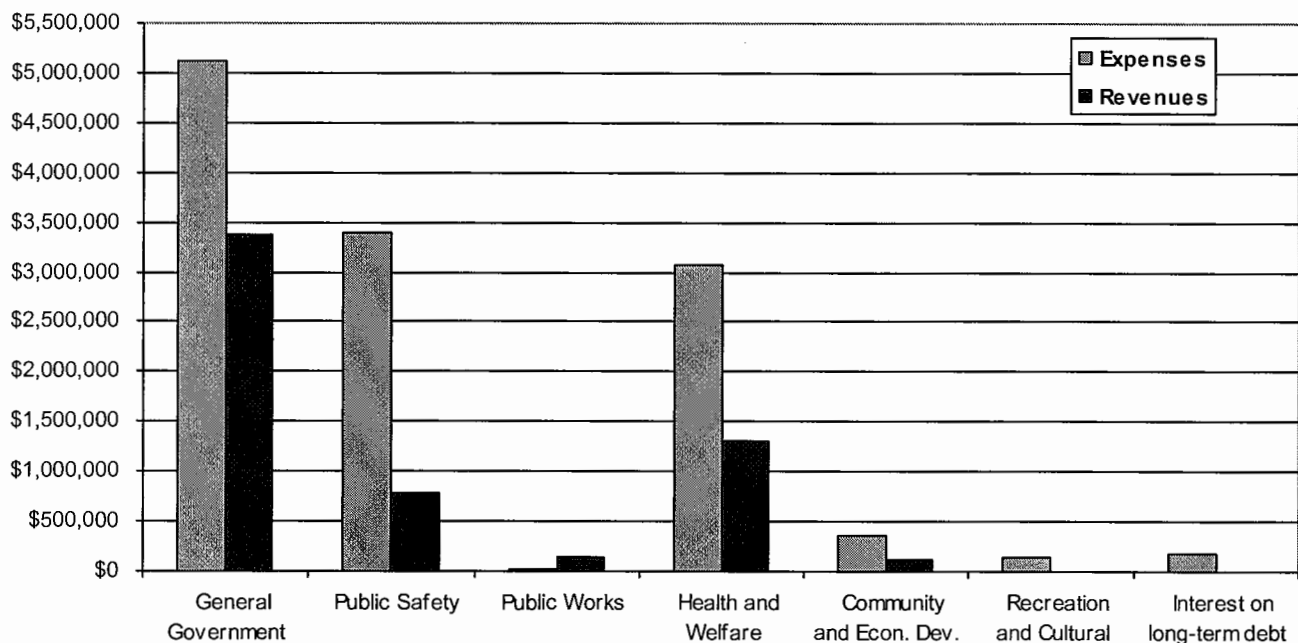
### Revenues:

The three largest revenue categories were property taxes at 53% (increase of 12% from the prior year), charges for services at 24% (decrease of 3% from the prior year) and grants and contributions at 23% (no percentage increase from the prior year). The County levied four property tax millages for the 2005 tax year, one being for general government operations at 5.5246 mills which is not assigned to any particular activity, one for the revenue sharing reserve at 1.8467 mills, the senior citizens millage at .6425 mills to finance the Commission on Aging and the parks millage at .3500 mills to finance the Parks Department. Charges for services, which reimburse the County for specific activities, are the second largest source of governmental activity revenue. Examples include District Court fees and services, Clerk's Office filing fees, Register of Deeds filing fees, and inmate telephone charges.

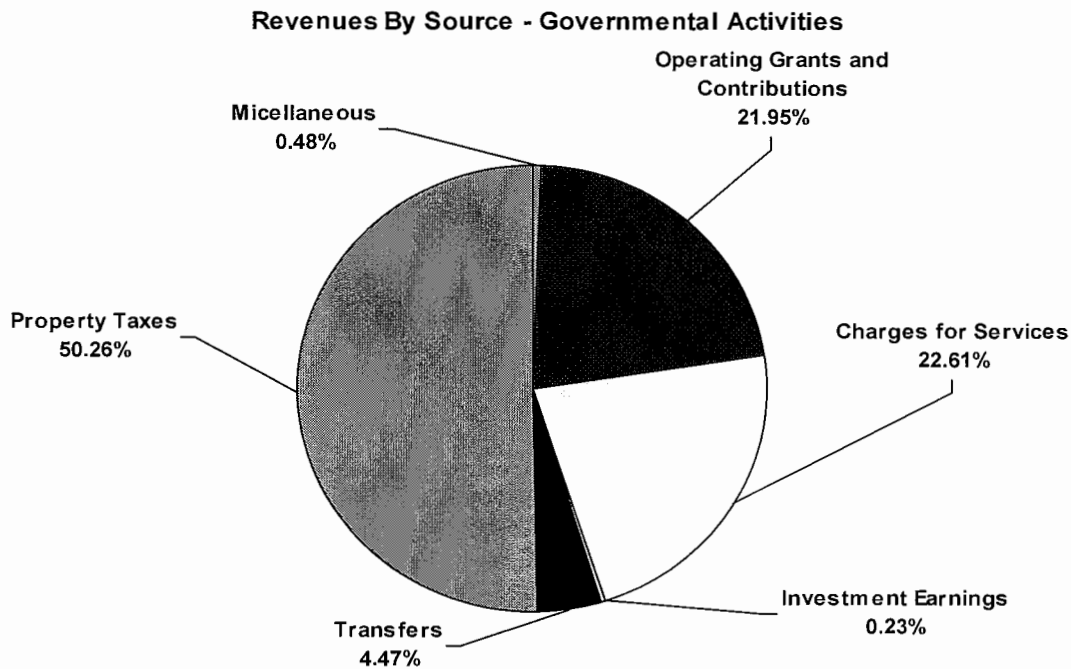
### Expenses:

General government is the largest governmental activity, expending over \$5.13 million (an increase of \$115,572 or 2.3 percent) of the \$12.3 million total and includes offices such as District Court, Juvenile Court, Prosecuting Attorney, Board of Commissioners, Treasurer, Clerk, Register of Deeds, Elections and MSU Extension. Public Safety is the second largest governmental activity, expending \$3.39 million (an increase of \$385,791 or 12.9 percent). Expenditures grew in this activity as a result of homeland security measures instituted post 9/11 the addition of three full time Sheriff Deputies funded via a COPS grant and the purchase of 8 patrol vehicles. It also includes the Sheriff Road Patrol and Jail operations. Health and Welfare is the third largest area, expending \$3.08 million (an increase of \$149,182 or 5.1 percent), and includes the Medical Examiner, District Health, Mental Health, Veterans Affairs and Substance Abuse.

**Expenses and Program Revenues - Governmental Activities**



## County of Gratiot Management's Discussion and Analysis

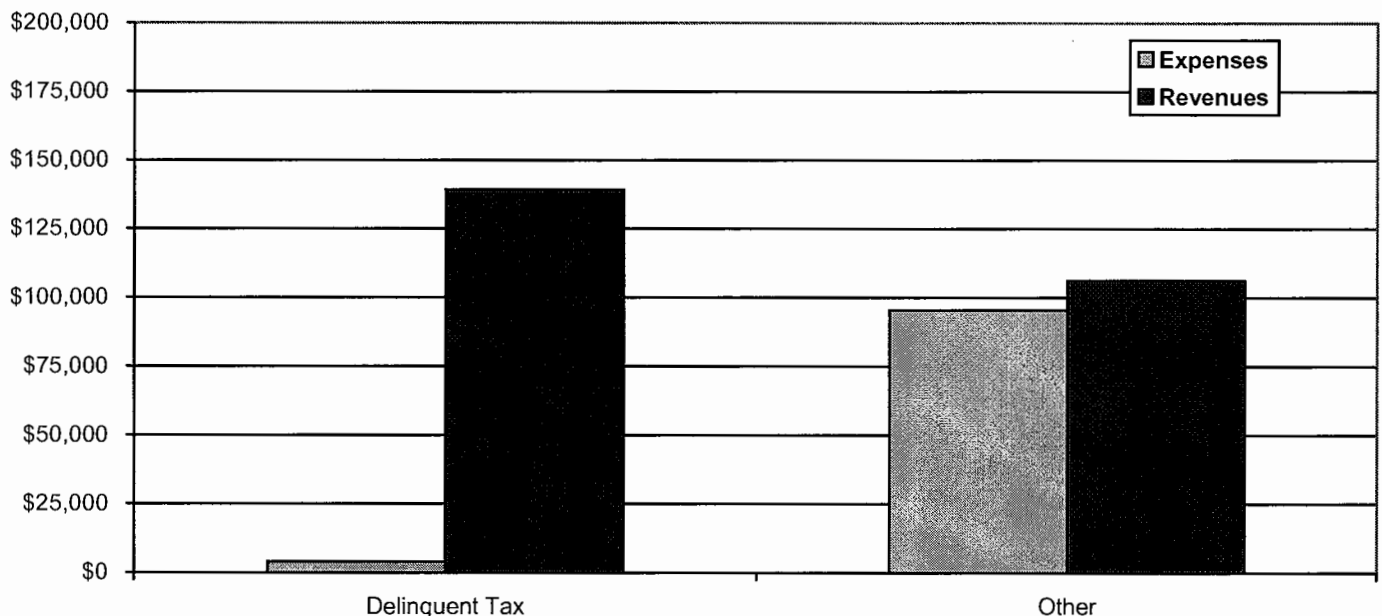


### Business-type Activities:

Net assets in business-type activities decreased by \$292,088 during Fiscal Year 2005. The vast majority of this decrease was a result of the planned operating transfer of \$575,000 from the Delinquent Tax Fund surplus to the General Fund. Without this transfer, net assets would have increased by \$282,912.

Of the total \$5.05 million of net assets in the business type activities, \$5.05 million is reported as unrestricted. However, it is important to note that although reported as unrestricted, many of these assets are anticipated to be designated through Board of Commissioners action to be spent on General Fund activities and self-funding of delinquent tax payments in future years.

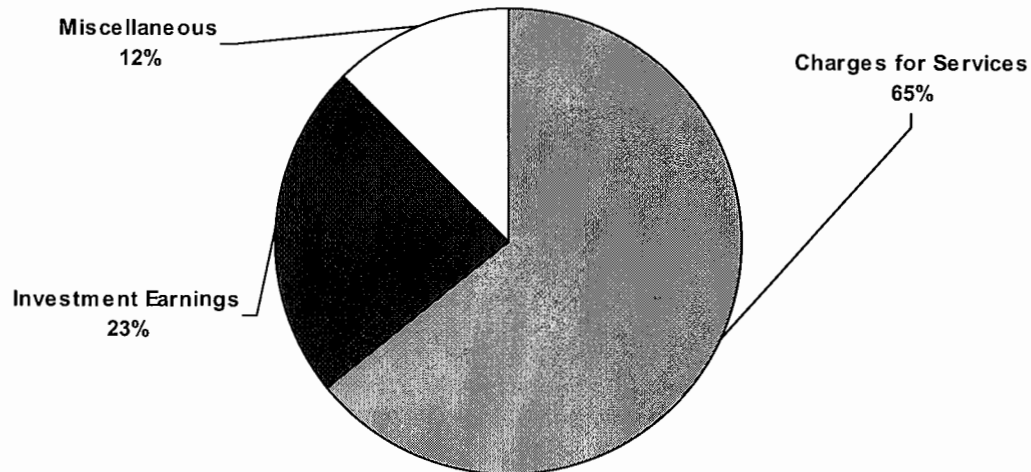
### **Expenses and Program Revenues - Business-type Activities**



**County of Gratiot**  
**Management's Discussion and Analysis**

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**Revenues By Source - Business-type Activities**



**FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR AND NONMAJOR FUNDS**

As the County completed fiscal year 2005, its governmental funds reported *combined* fund balances of \$1,909,108, an increase of \$19,369, including prior period adjustments. The net changes are summarized in the following chart:

	General Fund	Revenue Sharing Reserve	Nonmajor Governmental Funds
<b>Fund Balance 9/30/04</b>	\$1,082,966	\$ -	\$ 806,773
<b>Fund Balance 9/30/05</b>	\$ 863,300	\$ 454,574	\$ 591,234
<b>Net Change</b>	<b>\$ ( 219,666 )</b>	<b>\$ 454,574</b>	<b>\$ ( 215,539 )</b>

The General Fund balance decreased by \$219,666; this is partially due to planned use of the unrestricted fund balance and the creation of the Revenue Sharing Reserve fund. The County is no longer receiving direct revenue sharing payments from the State. The Revenue Sharing Reserve Fund was created by Public Act 357 of 2004, which shifts the General Fund county property tax collections from December to July over a three year period. During the time period, the County will levy 33% more each fiscal year and sets aside that amount into this fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment. The combined other nonmajor funds decreased by \$215,539. The Solid Waste Planning Fund decreased by \$10,064 because the State did not renew a contract for maintenance of the County Landfill. A decrease of \$46,660 was noted in the Clinton County Child Care Fund. It should be noted that this fund is not managed by Gratiot County but we are required to report it as the Department of Human Services office manages both Clinton and Gratiot County. The Gratiot County Child Welfare Fund decreased by \$29,714 due to a planned use of prior years fund balances to offset expenses.

## County of Gratiot Management's Discussion and Analysis

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### General Fund:

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement or Board policy, all County revenues and expenditures are recorded in the General Fund. As of September 30, 2005, the General Fund reported a fund balance of \$863,300. The General Fund balance decreased by \$219,666 due to a planned use of fund balance during the fiscal year. Of the total fund balance, all but \$291,456 is reserved, designated or earmarked for specific purposes.

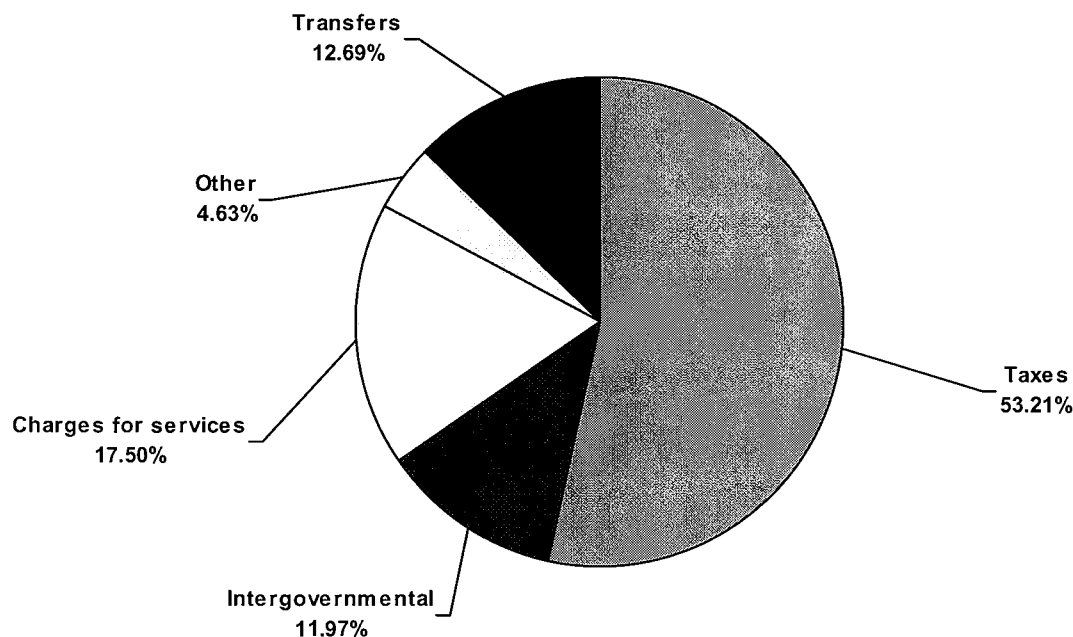
The General Fund fiscal year 2005 revenues exceeded fiscal year 2004 expenditures by \$1,214,642; however, the General Fund also supports the operations of other funds including the required transfer to the Revenue Sharing Reserve Fund, Child Care Fund, Secondary Road Patrol, COPS Grant Fund, Jail/Health Building Debt Fund, Courthouse Renovation Debt Fund, and the Friend of the Court Fund. The County transfers in some of the Delinquent Tax Fund Surplus to offset these transfers out.

### General Fund Budgetary Highlights:

Gratiot County's budget is a dynamic document. Although adopted in September (prior to the start of the fiscal year), the budget is frequently amended during the course of the fiscal year to reflect changing operational demands.

The County's amended revenue budget was increased by \$1,560,267 (17.3% above the original budget) during fiscal year 2005. This was needed in order to comply with Public Act 357 of 2004 creating the Revenue Sharing Reserve Fund. Actual General Fund revenue and other financing sources totaled \$10,562,616, which was \$12,912 below the final amended budget. Variations in individual revenue accounts continue to reflect the slow recovery for the state and local economy. Significantly, tax revenue increased by \$1,615,002 from the prior year. Of this amount, \$1,367,058 was due to Public Act 357 of 2004. The actual increase was \$247,944 or 7.1% from the prior year. License and permit fees increased by \$11,454 or 9%. Intergovernmental revenues decreased by \$468,441 from 2004 due to the elimination of State revenue sharing payments. Charges for Services decreased by \$143,771 or 7.2% due to decreased activity in District Court. Transfers in also increased significantly from the prior year due to a transfer in of \$753,816 from the Revenue Sharing Reserve Fund to replace revenue sharing payments from the State.

**Revenues By Source - General Fund**





## County of Gratiot

### Management's Discussion and Analysis

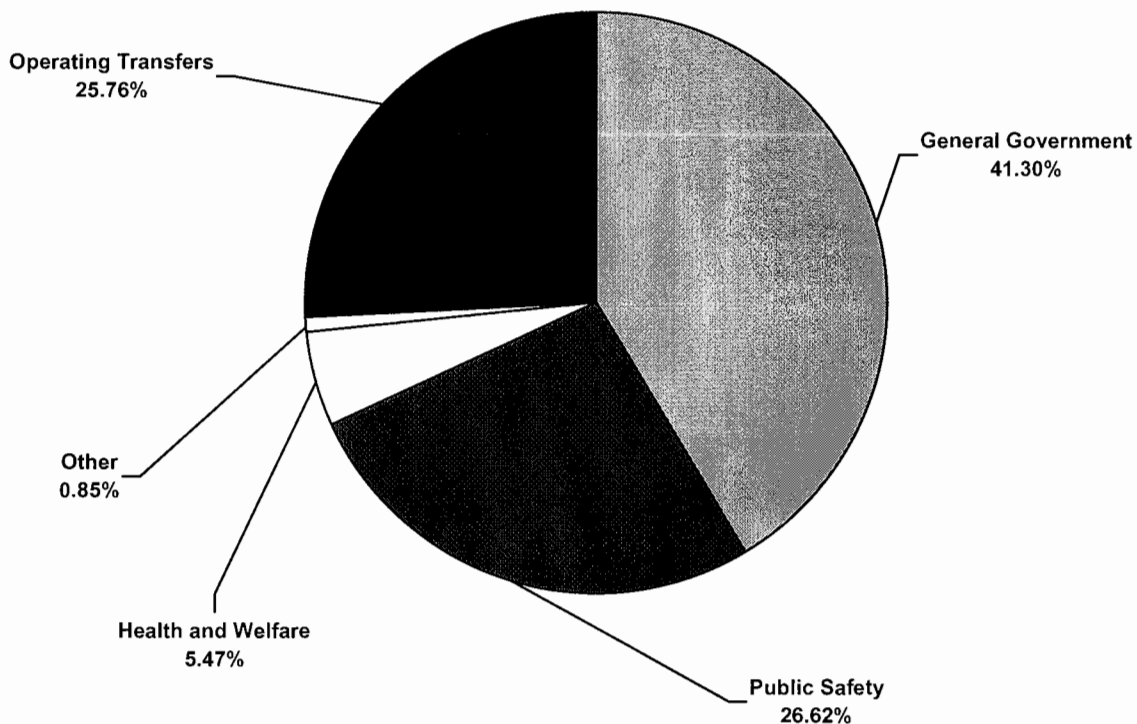
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The County's expenditure budget was increased by \$1,626,227 (17.3% above the original budget) during fiscal year 2005. This was needed in order to comply with Public Act 357 of 2004 creating the Revenue Sharing Reserve Fund to account for the transfer out of the additional tax revenue. A majority of the other amendments were in the Remonumentation budget due to an increase in grant funding, the Jail budget due to the housing out of more prisoners than expected due to overcrowding, and to the emergency management budget related to the increased number of federal grants to enhance the County's homeland security efforts.

Actual County expenditures for fiscal year 2005 were \$217,573 or 2.0% below the amended budget. This is due to several reasons including:

- \$21,431 less than planned for general government operations due to the fiscal discipline of the various county managers and elected officials.
- \$73,197 less than planned for public safety operations due to a planned transfer of personnel paid in the central dispatch fund to the jail activity not completed during the fiscal year.
- \$117,659 less than planned transfers out mainly due to less utilization of out of home placements in the Child Care Fund.

#### Expenditures By Program Area - General Fund



## County of Gratiot

### Management's Discussion and Analysis

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#### Revenue Sharing Reserve Fund:

Until 2005, the County received revenue sharing payments from the State of Michigan under the State Constitution and the State Revenue Sharing Act of 1971, as amended (the "Revenue Sharing Act"). In anticipation of a continued budget deficit, in September 2004, Governor Granholm signed into law Act 356, Public Acts of Michigan, 2004 ("Act 356"), an amendment to the Revenue Sharing Act, and Act 357, Public Acts of Michigan, 2004 ("Act 357") an amendment to the General Property Tax Act. Act 356 and Act 357 accomplish the temporary elimination of approximately \$182.1 million in statutory revenue sharing payments to counties by creating a reserve fund paid for by the permanent advancement of the counties' property tax levy from December to July each year, beginning July 2005. Under Act 356 and Act 357, the additional county revenue generated from the accelerated levy will be placed in a reserve fund that each county would draw against in lieu of their annual revenue sharing payments. State revenue sharing payments to a county would resume in the first year in which a county's property tax revenue reserve is less than the amount the county would have otherwise received in state revenue sharing payments. Gratiot County transferred \$1,367,058 to this fund in 2005 and transferred back \$753,816 to the General Fund. The balance that remains in the Revenue Sharing Reserve Fund will be used in future years.

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2005 the County had invested \$8,421,043 and \$4,631,426 for the component units (excluding the Road Commission), net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$3,362,867 for the primary government. Depreciation charges for the fiscal year totaled \$434,352 for the primary government and \$144,869 for the component units (excluding the Road Commission).

	<u>Governmental Activities</u>		<u>Component Unit Drains</u>		<u>Component Unit Central Dispatch</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 519,157	\$ 462,623	\$ -	\$ -	\$ -	\$ -	\$ 519,157	\$ 462,623
Const. in progress	253,870	-	203,927	76,891	-	-	457,797	76,891
Buildings, net	6,914,389	7,106,476	-	-	-	-	6,914,389	7,106,476
Equipment, net	514,276	413,078	41,019	-	-	1,333	555,295	414,411
Vehicles, net	219,351	154,553	26,155	33,799	-	-	245,506	188,352
Drains, net	-	-	4,360,325	4,150,690	-	-	4,360,325	4,150,690
Capital assets, net	<u>\$8,421,043</u>	<u>\$ 8,136,730</u>	<u>\$4,631,426</u>	<u>\$4,261,380</u>	<u>\$ -0-</u>	<u>\$ 1,333</u>	<u>\$13,052,469</u>	<u>\$12,399,443</u>

Long-term Debt - As of September 30, 2005, the County had \$4,137,784 in bonds, notes and accumulated vacation and sick time outstanding for the primary government. Of this amount, \$3,521,716 is bonds with unlimited or limited taxing authority. This level of net obligation is \$163,449 less than the obligation recorded as of September 30, 2004. In addition, the County uses its full faith and credit (as a secondary obligator), to back the Board of Public Works and Drainage District component unit debt. The Drain Commission administers debt for various local drainage districts and water and sewer systems for local municipalities in Gratiot County. All drain debt is payable out of assessments against the drainage districts or by contractual agreements with local units of government.

## County of Gratiot

### Management's Discussion and Analysis

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#### Outstanding Debt as of September 30, 2005:

	<u>Oct. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Sept. 30, 2005</u>
<b>Primary Government</b>				
Governmental Activities				
Direct County Obligations	\$ 3,737,371	\$ -	\$ 215,655	\$ 3,521,716
Accumulated Comp. Absences	<u>563,862</u>	<u>52,206</u>	<u>-</u>	<u>616,068</u>
<b>Total Primary Government</b>	4,301,233	52,206	215,655	4,137,784
<b>Component Units</b>				
Road Commission				
Accumulated Comp. Absences	286,354	43,669	-	330,023
Board of Public Works				
Water and Sewer Bonds	810,000	-	45,000	765,000
Drainage Districts				
Drain Bonds and Notes	<u>1,033,770</u>	<u>559,200</u>	<u>312,375</u>	<u>1,280,595</u>
<b>Total Component Units</b>	<u>2,130,124</u>	<u>602,869</u>	<u>357,375</u>	<u>2,375,618</u>
<b>Total Reporting Entity</b>	<u>\$ 6,431,357</u>	<u>\$ 655,075</u>	<u>\$ 573,030</u>	<u>\$ 6,513,402</u>
<b>Debt Limit (10% of SEV)</b>				<b>\$ 109,133,002</b>
<b>Available Statutory Debt Limit</b>				<b>\$ 102,619,600</b>

Activity for the Component Units and Drain Funds during fiscal year 2005 included the issuance of \$559,200 in drainage district bonds and notes. There was also an increase of 52,206 in accumulated, unused sick and vacation time for the primary government.

A more detailed discussion of the County's long-term debt obligations is presented in Note G to the financial statements.

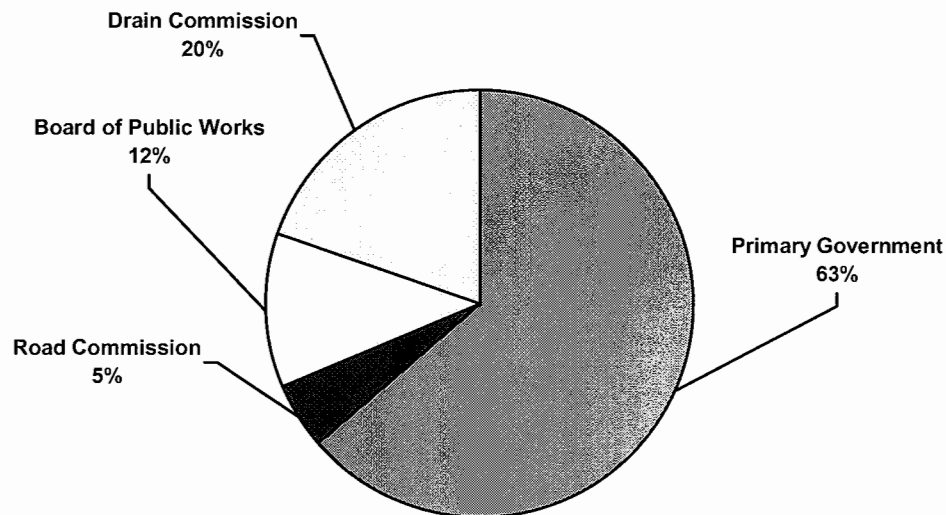
#### Limitations on Debt:

State statute limits the County's debt obligations to 10 percent of the current state equalized value (SEV). The County's SEV as of September 30, 2005 was \$1.091 billion; therefore the County's debt limitation was \$109 million. The County remains well below its legal debt limit by over \$102 million.

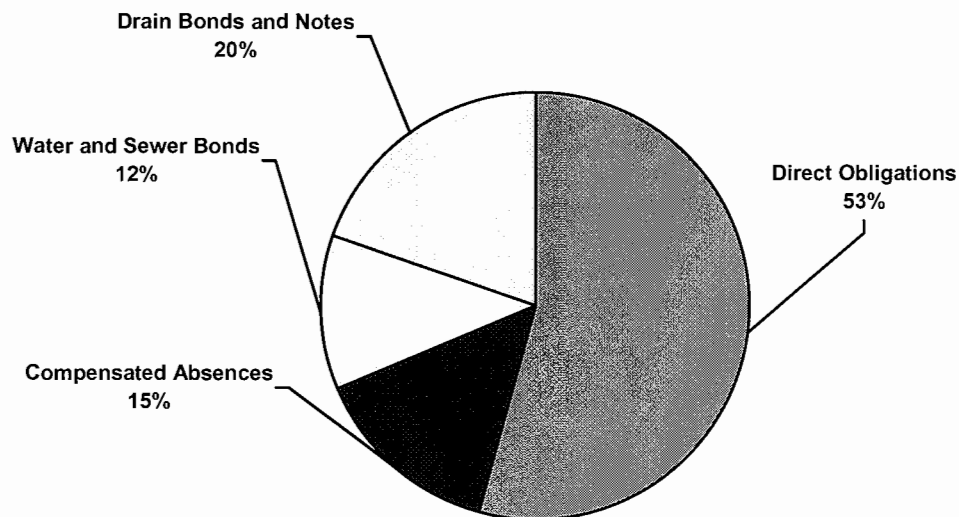
**County of Gratiot**  
**Management's Discussion and Analysis**

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**Outstanding Long Term Debt - By Unit**



**Outstanding Long Term Debt - By Category**



**GRATIOT COUNTY GOVERNMENT ECONOMIC OUTLOOK:**

- The total number of people employed in Gratiot County for 2005 was 19,150 versus 18,700 in 2004, reflecting an increase of 450 people.
- The unemployment rate for Gratiot County for 2005 was 7.9 percent, which decreased from 8.6 percent in 2004.
- The State unemployment rate for 2005 was 6.4 percent, a decrease from 7.1 percent in 2004.
- Inflationary trends in the region compare favorably to national indices.

## County of Gratiot

### Management's Discussion and Analysis

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- The inflation rate multiplier for use in the 2005 capped value formula under Proposal A for determining property tax increases was 1.023 percent. The inflation rate multiplier for 2006 is 1.033 percent. The following table shows the history since proposal A was passed:

1995	1.026
1996	1.028
1997	1.028
1998	1.027
1999	1.016
2000	1.019
2001	1.032
2002	1.032
2003	1.015
2004	1.023
2005	1.023
2006	1.033

- Health insurance and pension costs continue to increase following state and national trends.
- State Shared Revenue remains a concern as the State may not restore the payments due to long term economic cycles.

The County considered all of these factors in preparing the County's budget for the 2006 fiscal year.

In order to meet these challenges, the County continues to utilize a very detailed budget process to identify issues and plan accordingly. The County will also begin utilizing three year budget projections to identify long-term financial issues and potential solutions.

#### **CONTACTING THE COUNTY**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Gratiot County Treasurer's Office at (989) 875-5220 or Gratiot County Administration at (989) 875-5261 or via email, [dskiver@co.gratiot.mi.us](mailto:dskiver@co.gratiot.mi.us).

## **BASIC FINANCIAL STATEMENTS**

Gratiot County, Michigan

STATEMENT OF NET ASSETS

September 30, 2005

	Primary Government			
	Governmental	Business-type	Total	Component
	Activities	Activities		Units
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,518,392	\$ 1,192,753	\$ 2,711,145	\$ 2,451,867
Investments	-	307,920	307,920	-
Receivables	1,207,577	934,751	2,142,328	1,746,717
Internal balances	(600,000)	600,000	-0-	-
Inventories	13,363	-	13,363	298,774
Prepays	148,040	-	148,040	2,750
Current portion of lease receivable	-	-	-0-	45,000
Total current assets	2,287,372	3,035,424	5,322,796	4,545,108
Noncurrent assets				
Restricted investments	38,238	-	38,238	-
Investments	-	2,092,975	2,092,975	-
Lease receivable	-	-	-0-	720,000
Advance to other governmental unit	292,528	-	292,528	-
Capital assets not being depreciated	773,027	-	773,027	546,690
Capital assets, net of accumulated depreciation	7,648,016	-	7,648,016	32,246,435
Total noncurrent assets	8,751,809	2,092,975	10,844,784	33,513,125
<b>TOTAL ASSETS</b>	<b>11,039,181</b>	<b>5,128,399</b>	<b>16,167,580</b>	<b>38,058,233</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	327,212	71,411	398,623	91,074
Accrued liabilities	170,283	1,523	171,806	38,866
Accrued interest payable	72,617	-	72,617	32,593
Due to other governmental units	49,496	-	49,496	308,644
Deferred revenues	14,000	-	14,000	-
Current portion of long-term debt	265,889	-	265,889	423,960
Total current liabilities	899,497	72,934	972,431	895,137
Noncurrent liabilities				
Advance from other governmental unit	-	-	-0-	292,528
Advance from State	-	-	-0-	249,028
Compensated absences	616,068	-	616,068	330,023
Noncurrent portion of long-term debt	3,255,827	-	3,255,827	1,621,635
Total noncurrent liabilities	3,871,895	-0-	3,871,895	2,493,214
<b>TOTAL LIABILITIES</b>	<b>4,771,392</b>	<b>72,934</b>	<b>4,844,326</b>	<b>3,388,351</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	4,899,327	-	4,899,327	31,512,530
Restricted for				
Public safety	57,406	-	57,406	-
Capital improvement	15,949	-	15,949	-
Other purposes	484,018	-	484,018	1,709,589
Unrestricted	811,089	5,055,465	5,866,554	1,447,763
<b>TOTAL NET ASSETS</b>	<b>\$ 6,267,789</b>	<b>\$ 5,055,465</b>	<b>\$ 11,323,254</b>	<b>\$ 34,669,882</b>

See accompanying notes to financial statements.

Gratiot County, Michigan

STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions		Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions			Governmental Activities	Primary Government Business-type Activities	Total	Component Units
<b>Primary government</b>									
Governmental activities									
General government	\$ 5,125,932	\$ 2,257,438	\$ 1,119,347	\$ -	-	\$ (1,749,147)	\$ -	\$ (1,749,147)	\$ -
Public safety	3,387,739	235,306	310,456	235,167	-	(2,606,810)	-	(2,606,810)	-
Public works	10,476	65	-	133,889	-	123,478	-	123,478	-
Health and welfare	3,080,622	396,737	914,347	-	-	(1,769,538)	-	(1,769,538)	-
Community and economic development	352,309	17,763	109,762	-	-	(224,784)	-	(224,784)	-
Recreation and cultural	140,311	-	-	-	-	(140,311)	-	(140,311)	-
Interest on long-term debt	179,238	-	-	-	-	(179,238)	-	(179,238)	-
Total governmental activities	12,276,627	2,907,309	2,453,912	369,056	-0-	(6,546,350)	-0-	(6,546,350)	-0-
<b>Business-type activities</b>									
Delinquent tax	3,936	139,211	-	-	-	-	135,275	135,275	-
Other	95,471	106,163	-	-	-	-	10,692	10,692	-
Total business-type activities	99,407	245,374	-0-	-0-	-0-	-0-	145,967	145,967	-0-
Total primary government	\$ 12,376,034	\$ 3,152,683	\$ 2,453,912	\$ 369,056	-0-	(6,546,350)	145,967	(6,400,383)	-0-
<b>Component units</b>									
Drainage Districts	\$ 714,888	\$ 13,730	-	\$ 377,557	-	-	-	-0-	(323,601)
Board of Public Works	43,485	-	-	9,205	-	-	-	-0-	(34,280)
Central Dispatch	598,606	740,367	-	-	-	-	-	-0-	141,761
Road Commission	6,890,567	1,386,553	2,377,198	4,101,216	-	-	-	-0-	974,400
Total component units	\$ 8,247,546	\$ 2,140,650	\$ 2,377,198	\$ 4,487,978	-0-	-0-	-0-	-0-	758,280
<b>General revenues</b>									
Property taxes						6,462,612	-	6,462,612	-
Investment earnings						29,340	89,657	118,997	54,828
Miscellaneous						61,651	47,288	108,939	67,574
Transfers						575,000	(575,000)	-0-	-
Total general revenues and transfers						7,128,603	(438,055)	6,690,548	122,402
<b>Change in net assets</b>						582,253	(292,088)	290,165	880,682
Net assets, beginning of the year						5,682,329	5,347,553	11,029,882	33,789,200
Prior period adjustments						3,207	-	3,207	-
Net assets, end of the year						\$ 6,267,789	\$ 5,055,465	\$ 11,323,254	\$ 34,669,882

See accompanying notes to financial statements.



Gratiot County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2005

	General	Revenue Sharing Reserve	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 596,493	\$ 4	\$ 821,205	\$ 1,417,702
Investments - restricted	-	-	38,238	38,238
Receivables				
Accounts	231,960	-	45,759	277,719
Taxes	553,345	-	-	553,345
Due from other funds	2,600	454,570	-	457,170
Due from other governmental units	195,301	-	178,892	374,193
Prepays	3,084	-	4,317	7,401
Advance to other governmental units	292,528	-	-	292,528
<b>TOTAL ASSETS</b>	<b>\$ 1,875,311</b>	<b>\$ 454,574</b>	<b>\$ 1,088,411</b>	<b>\$ 3,418,296</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 164,621	\$ -	\$ 108,926	\$ 273,547
Accrued payroll	83,079	-	24,755	107,834
Due to other governmental units	-	-	49,496	49,496
Due to other funds	754,570	-	300,000	1,054,570
Deferred revenue	9,741	-	14,000	23,741
<b>TOTAL LIABILITIES</b>	<b>1,012,011</b>	<b>-0-</b>	<b>497,177</b>	<b>1,509,188</b>
<b>FUND BALANCES</b>				
Reserved for				
Advances	292,528	-	-	292,528
Parks	-	-	39,032	39,032
Prepays	3,084	-	4,317	7,401
Unreserved				
Designated for				
Private donation	781	-	-	781
Handicap	4,658	-	-	4,658
Veterans	200	-	-	200
Renaissance zone	171,077	-	-	171,077
Circuit court counsel	46,500	-	-	46,500
Prosecuting attorney	36,332	-	-	36,332
Liquor law enforcement	16,684	-	-	16,684
Undesignated, reported in				
General fund	291,456	-	-	291,456
Special revenue funds	-	454,574	762,872	1,217,446
Debt service funds	-	-	30,908	30,908
Capital projects funds	-	-	(245,895)	(245,895)
<b>TOTAL FUND BALANCES</b>	<b>863,300</b>	<b>454,574</b>	<b>591,234</b>	<b>1,909,108</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,875,311</b>	<b>\$ 454,574</b>	<b>\$ 1,088,411</b>	<b>\$ 3,418,296</b>

See accompanying notes to financial statements.

Gratiot County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

September 30, 2005

**Total fund balance - governmental funds** **\$ 1,909,108**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 11,783,910	
Accumulated depreciation is	<u>(3,362,867)</u>	
Capital assets, net		8,421,043

Internal Service Funds are used by management to charge the costs  
of certain activities to individual funds. The assets and liabilities  
of the Internal Service Funds are included in the governmental activities  
in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	138,298
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Long-term receivables are not available to pay for current period expenditures  
and are therefore deferred in the funds. These consist of:

Deferred revenue	9,741
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Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the Governmental Funds Balance Sheet.  
Long-term liabilities at year-end consist of:

Direct County obligations	(3,521,716)	
Accrued interest payable	(72,617)	
Compensated absences	<u>(616,068)</u>	
		<u>(4,210,401)</u>

<b>Net assets of governmental activities</b>	<b><u><u>\$ 6,267,789</u></u></b>
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See accompanying notes to financial statements.

Gratiot County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2005

	General	Revenue Sharing Reserve	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 5,620,870	\$ -	\$ 755,552	\$ 6,376,422
Licenses and permits	138,161	-	125,918	264,079
Intergovernmental	1,264,790	-	1,683,029	2,947,819
Charges for services	1,848,250	-	203,265	2,051,515
Fines and forfeits	81,836	-	5,510	87,346
Interest and rents	24,610	-	57,606	82,216
Other	243,283	-	231,200	474,483
<b>TOTAL REVENUES</b>	<b>9,221,800</b>	<b>-0-</b>	<b>3,062,080</b>	<b>12,283,880</b>
<b>EXPENDITURES</b>				
Current				
General government	4,454,176	158,668	573,556	5,186,400
Public safety	2,871,067	-	475,249	3,346,316
Public works	347	-	10,129	10,476
Health and welfare	589,670	-	2,471,061	3,060,731
Community and economic development	91,898	-	119,222	211,120
Recreation and cultural	-	-	206,243	206,243
Capital outlay	-	-	423,170	423,170
Debt service	-	-	398,262	398,262
<b>TOTAL EXPENDITURES</b>	<b>8,007,158</b>	<b>158,668</b>	<b>4,676,892</b>	<b>12,842,718</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,214,642</b>	<b>(158,668)</b>	<b>(1,614,812)</b>	<b>(558,838)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,340,816	1,367,058	1,532,425	4,240,299
Transfers out	(2,778,331)	(753,816)	(133,152)	(3,665,299)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,437,515)</b>	<b>613,242</b>	<b>1,399,273</b>	<b>575,000</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>(222,873)</b>	<b>454,574</b>	<b>(215,539)</b>	<b>16,162</b>
Fund balances, beginning of year	1,082,966	-	806,773	1,889,739
Prior period adjustments	3,207	-	-	3,207
<b>Fund balances, end of year</b>	<b>\$ 863,300</b>	<b>\$ 454,574</b>	<b>\$ 591,234</b>	<b>\$ 1,909,108</b>

See accompanying notes to financial statements.

Gratiot County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

**Net change in fund balances - total governmental funds** \$ 16,162

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 718,665	
Depreciation expense	<u>(434,352)</u>	
Excess of depreciation expense over capital outlay		284,313

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net assets of Internal Service Funds	114,960
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal and capital lease retirement	215,655
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	3,369	
(Increase) in accrued compensated absences	<u>(52,206)</u>	
		<u>(48,837)</u>

<b>Change in net assets of governmental activities</b>	<b>\$ 582,253</b>
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See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

September 30, 2005

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,096,471	\$ 96,282	\$ 1,192,753	\$ 100,690
Investments	307,920	-	307,920	-
Receivables	932,127	1,346	933,473	2,320
Inventories	-	-	-0-	13,363
Due from other governmental units	1,278	-	1,278	-
Due from other funds	600,000	4,892	604,892	-
Prepays	-	-	-0-	140,639
Total current assets	2,937,796	102,520	3,040,316	257,012
Noncurrent assets				
Investments	2,092,975	-	2,092,975	-
TOTAL ASSETS	5,030,771	102,520	5,133,291	257,012
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	60,909	5,009	65,918	53,665
Accrued liabilities	-	1,523	1,523	62,449
Due to other governments	5,493	-	5,493	-
Due to other funds	4,892	-	4,892	2,600
TOTAL LIABILITIES	71,294	6,532	77,826	118,714
<b>NET ASSETS</b>				
Unrestricted	<u>\$ 4,959,477</u>	<u>\$ 95,988</u>	<u>\$ 5,055,465</u>	<u>\$ 138,298</u>

See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2005

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES				
Interest and penalties on delinquent taxes	\$ 116,268	\$ -	\$ 116,268	\$ -
Charges for services	22,943	106,163	129,106	2,051,643
Intergovernmental - local	-	-	-0-	36,144
Other revenue	3	47,285	47,288	33,057
TOTAL OPERATING REVENUES	139,214	153,448	292,662	2,120,844
OPERATING EXPENSES				
Salaries	-	23,560	23,560	-
Fringe benefits	-	7,465	7,465	1,947,352
Contractual services	-	2,250	2,250	-
Supplies	-	7,996	7,996	-
Communication	-	204	204	-
Miscellaneous	3,936	53,996	57,932	58,532
TOTAL OPERATING EXPENSES	3,936	95,471	99,407	2,005,884
OPERATING INCOME	135,278	57,977	193,255	114,960
NONOPERATING REVENUES				
Interest revenue	89,657	-	89,657	-
INCOME (LOSS) BEFORE TRANSFERS OUT	224,935	57,977	282,912	114,960
TRANSFERS OUT	(575,000)	-	(575,000)	-
CHANGE IN NET ASSETS	(350,065)	57,977	(292,088)	114,960
Net assets, beginning of year	5,325,553	22,000	5,347,553	23,338
Prior period adjustments	(16,011)	16,011	-0-	-
Net assets, end of year	<u>\$ 4,959,477</u>	<u>\$ 95,988</u>	<u>\$ 5,055,465</u>	<u>\$ 138,298</u>

See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended September 30, 2005

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from customers	\$ 1,261,381	\$147,591	\$1,408,972	\$ 2,118,524
Cash paid to suppliers	(28,843)	(63,831)	(92,674)	(58,032)
Cash paid for employee benefits	-	-	-0-	(1,931,212)
Cash paid to employees	-	(30,906)	(30,906)	-
Cash paid for delinquent taxes	(1,940,344)	-	(1,940,344)	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(707,806)</b>	<b>52,854</b>	<b>(654,952)</b>	<b>129,280</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers out	(575,000)	-	(575,000)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(1,301,101)	-	(1,301,101)	-
Maturity of investments	1,200,339	-	1,200,339	-
Interest revenue	89,657	-	89,657	-
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<b>(11,105)</b>	<b>-0-</b>	<b>(11,105)</b>	<b>-0-</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,293,911)</b>	<b>52,854</b>	<b>(1,241,057)</b>	<b>129,280</b>
Restated cash and cash equivalents, beginning of year	2,390,382	43,428	2,433,810	(28,590)
Cash and cash equivalents, end of year	<u>\$ 1,096,471</u>	<u>\$ 96,282</u>	<u>\$1,192,753</u>	<u>\$ 100,690</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Operating income	\$ 135,278	\$ 57,977	\$ 193,255	\$ 114,960
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
(Increase) in receivables	(217,977)	(965)	(218,942)	(2,320)
(Increase) in prepaids	-	-	-0-	(31,599)
(Increase) in due from other governmental units	(300,200)	-	(300,200)	-
(Increase) in due from other funds	(300,000)	(4,892)	(304,892)	-
Increase (decrease) in accounts payable	(35,292)	615	(34,677)	(14,710)
Increase in due to other governments	5,493	-	5,493	-
Increase in due to other funds	4,892	-	4,892	500
Increase in accrued liabilities	-	119	119	62,449
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><b>\$ (707,806)</b></u>	<u><b>\$ 52,854</b></u>	<u><b>\$ (654,952)</b></u>	<u><b>\$ 129,280</b></u>

See accompanying notes to financial statements.

Gratiot County, Michigan

Fiduciary Funds

STATEMENT OF NET ASSETS

September 30, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 1,276,620
Due from other governmental units	<u>40,822</u>
TOTAL ASSETS	<u>\$ 1,317,442</u>
LIABILITIES	
Undistributed collections payable	\$ 123,717
Defendant bonds payable	76,241
Due to other governmental units	1,109,065
Due to individuals and agencies	<u>8,419</u>
TOTAL LIABILITIES	<u>\$ 1,317,442</u>

See accompanying notes to financial statements.



Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2005

	Road Commission	Central Dispatch Authority	Board of Public Works
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,375,847	\$ 545,282	\$ 25,040
Receivables	1,001,720	81,944	-
Inventories	298,774	-	-
Prepays	2,750	-	-
Current portion of lease receivable	-	-	45,000
Total current assets	2,679,091	627,226	70,040
Noncurrent assets			
Lease receivable	-	-	720,000
Capital assets not being depreciated	342,763	-	-
Capital assets, net of accumulated depreciation	27,818,936	-	-
Total noncurrent assets	28,161,699	-	720,000
<b>TOTAL ASSETS</b>	<b>30,840,790</b>	<b>627,226</b>	<b>790,040</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	50,728	1,130	-
Accrued liabilities	31,079	7,787	-
Accrued interest payable	-	-	16,977
Due to other governmental units	308,644	-	-
Current portion of long-term debt	-	-	45,000
Total current liabilities	390,451	8,917	61,977
Noncurrent liabilities			
Advance from other governmental unit	-	-	-
Advance from State	249,028	-	-
Compensated absences	330,023	-	-
Noncurrent portion of long-term debt	-	-	720,000
Total noncurrent liabilities	579,051	-0-	720,000
<b>TOTAL LIABILITIES</b>	<b>969,502</b>	<b>8,917</b>	<b>781,977</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	28,161,699	-	-
Restricted for other purposes	1,709,589	-	-
Unrestricted	-	618,309	8,063
<b>TOTAL NET ASSETS</b>	<b>\$ 29,871,288</b>	<b>\$ 618,309</b>	<b>\$ 8,063</b>

See accompanying notes to financial statements.

Drainage Districts	Total Component Units
\$ 505,698	\$ 2,451,867
663,053	1,746,717
-	298,774
-	2,750
-	45,000
1,168,751	4,545,108
-	720,000
203,927	546,690
4,427,499	32,246,435
4,631,426	33,513,125
5,800,177	38,058,233
39,216	91,074
-	38,866
15,616	32,593
-	308,644
378,960	423,960
433,792	895,137
292,528	292,528
-	249,028
-	330,023
901,635	1,621,635
1,194,163	2,493,214
1,627,955	3,388,351
3,350,831	31,512,530
-	1,709,589
821,391	1,447,763
<u>\$ 4,172,222</u>	<u>\$ 34,669,882</u>

Gratiot County, Michigan

Component Unit Funds

STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Drainage Districts	\$ 714,888	\$ 13,730	\$ -	\$ 377,557	\$ (323,601)
Board of Public Works	43,485	-	-	9,205	(34,280)
Central Dispatch	598,606	740,367	-	-	141,761
Road Commission	6,890,567	1,386,553	2,377,198	4,101,216	974,400
<b>TOTALS</b>	<b>\$ 8,247,546</b>	<b>\$2,140,650</b>	<b>\$ 2,377,198</b>	<b>\$ 4,487,978</b>	<b>758,280</b>
General revenues					
Investment earnings					54,828
Miscellaneous					67,574
Total general revenues					122,402
CHANGE IN NET ASSETS					880,682
Net assets, beginning of year					33,789,200
Net assets, end of year					\$ 34,669,882

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The County of Gratiot, Michigan, was incorporated in 1855, and covers an area of approximately 580 square miles with the County seat located in the City of Ithaca. The County operates under an elected Board of Commissioners and provides services to its more than 40,000 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Gratiot County (primary government) and its component units. The component units described in Sections 2 and 3 below should be included in the County's reporting entity because of the significance of their operational or financial relationship with the County. Blended component units, although legally separate entities, are in substance, part of the County's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County.

2. Blended Component Unit

A three (3) member Board appointed by the Gratiot County Board of Commissioners governs the Gratiot County Building Authority. Its sole purpose is to finance and construct the County's public buildings. It is reported in the Debt Service and Capital Projects fund categories. A separate report is not prepared for the Building Authority.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Gratiot County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Gratiot County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Gratiot County Road Commission is responsible for the maintenance and construction of the County road system. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, Federal financial assistance, and contributions from other local government units within the County. The Gratiot County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three (3) member board of county road commissioners. The Road Commission is a separate legal entity from the County and they maintain a separate financial and accounting system. This component unit is audited individually and complete financial statements may be obtained from the Road Commission's administrative office.

The Gratiot County Board of Public Works (BPW) is a five (5) member Board comprised of the Drain Commissioner, a County Commissioner, a Road Commissioner, and two (2) members selected by the County Board of Commissioners (one (1) from City government and one (1) at large). The Board is under the general control of the County Board of Commissioners. The Board can acquire, improve, operate, and maintain water and sewage disposal systems for local units of government. Projects are initiated when the local unit requests the assistance of the BPW in organizing a project. Usually projects are financed by the sale of bonds upon final approval by the County Board of Commissioners as recommended by the BPW. The County must sell the bonds and pledge its full faith and security for payment of principal and interest. Special assessments are levied by the local units of government on benefited properties and are forwarded to the County for payment of principal and interest.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Discretely Presented Component Units - continued

The Drainage Districts in the County come under the jurisdiction of the Gratiot County Drain Commissioner. This includes planning, developing, and maintaining surface water drainage systems. A complete file of finance, construction, and maintenance is maintained for each of the drains. The Drain Commissioner has authority to spend up to \$2,500 per mile on drain maintenance and may borrow up to \$300,000 from any source to provide for maintenance of a drain without Board of Commissioner approval and without going through the Municipal Finance Division, State of Michigan. The Drain Commissioner has authority to levy special assessments on properties benefiting from maintenance. The Drainage Districts are financially accountable to the County because bond issuances greater than \$300,000 require County authorization and are backed by the full faith and credit of the County.

The Central Dispatch Authority is classified as a joint venture with various other governmental units. The details related to this joint venture agreement are disclosed below.

4. Joint Ventures

The County participates in the following activities, which are considered to be joint ventures in relation to the County due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

Gratiot County Central Dispatch Authority - The County is a member of the Gratiot County Central Dispatch Authority, which is a joint venture between Gratiot County, the Michigan State Police, the Villages of Ashley, Perrinton, and Breckenridge; and the Cities of Alma, St. Louis, and Ithaca. The Authority is governed by a ten (10) member board. One (1) board member is appointed by each of the participating governmental units and three (3) board members are set by statute. The three (3) statutory representatives are appointed by the Sheriff, the Fire Chief, and the Michigan State Police. The Authority has responsibility for preparing the annual budget (which is approved by the County) and to carry out all activities of the Authority.

The Authority's intent is to support and operate central dispatch services primarily with funds generated from operations (i.e., telephone surcharge fees). Any required local contributions would be calculated based on a pro rated scale, which takes into account the impact and use of the system for each participating unit. In November 2002, voters in Gratiot County approved a 911 surcharge to fully finance Central Dispatch Operations. For the year ended September 30, 2005, the County was not required to make a contribution to the Authority.

The financial activities of the Gratiot County Central Dispatch Authority are reported in the County's audited financial statements as a discretely presented component unit due to the County being responsible for the receipt and disbursement of the Authority's funds.

Gratiot Community Airport Commission - The County is a member of the Gratiot Community Airport Commission, which is a joint venture between Gratiot County and the City of Alma. Each unit appoints three (3) of the six (6) members to the Commission. The Commission has responsibility for preparing the annual budget (which is approved by the County and the City) and to carry out all activities of the Commission.

Each unit is responsible to fund 50% of the required local contribution to cover operational costs. The land and other property acquired during the term of the agreement are held by the County and City as tenants in common in such proportions as their contributions in the year of acquisition. For the year ended September 30, 2005, the County contributed \$47,600 to cover its share of operational costs.

The financial activities of the Gratiot Community Airport Commission are reported in the City of Alma's audited financial statements as a component unit, due to the City being responsible for the receipt and disbursement of the Commission's funds. As of June 30, 2005, the Commission had net assets of \$762,187. A copy of the Commission's audited financial statements can be obtained at City Hall.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**4. Joint Ventures - continued**

Mid-Michigan District Health Department - The County is a member of the Mid-Michigan District Health Department, which is a joint venture between Gratiot, Clinton, and Montcalm counties. Each unit appoints two (2) of the six (6) members to the governing Board. The Department has responsibility for preparing the annual budget (which is approved by each County) and to carry out all activities of the Department.

Each unit is responsible to fund a percentage of the overall budget pursuant to a formula included in the interlocal agreement to cover operational costs. For the year ended September 30, 2005, the County contributed \$270,644 to cover its share of operational costs.

The financial activities of the Mid-Michigan District Health Department are accounted for and reported separately from the participating units. Separate audited financial statements for their year ended September 30, 2004, the last year audited, are available at the Department's administrative offices. As of September 30, 2004, the Department had a fund balance of \$1,082,332. A copy of the Department's audited financial statements can be obtained at their administrative offices.

**5. Jointly Governed Organizations**

The County participates in the following activities which are considered to be jointly governed organizations in relation to the County due to there being no ongoing financial interest or responsibility.

East Central Michigan Planning & Development Regional Commission - Gratiot County, in conjunction with thirteen (13) other Counties, has entered into an agreement which created the East Central Michigan Planning & Development Regional Commission. This organization's Board is composed of 48 members, of which two (2) are appointed by Gratiot County. The County's financial responsibility is to contribute a pro rata share of "local match" funds based on the proportion of State equalized valuation. For the year ended September 30, 2005, the County's contribution to the Commission was \$5,500.

Central Area Partnership Consortium - Gratiot County, in conjunction with three (3) other Counties, has entered into an agreement that created the Central Area Partnership Consortium. This organization's Board is composed of eight (8) members, of which two (2) are appointed by Gratiot County. The organization receives all of its funding from State and Federal grants and, as a result, the County has no financial responsibility other than potential liability related to inappropriate use of the funds.

Mid-South Substance Abuse Commission - Gratiot County, in conjunction with five (5) other Counties, has entered into an agreement that created the Mid-South Substance Abuse Commission. This organization's Board is composed of fifteen (15) members, of which one (1) is appointed by Gratiot County. The County's financial responsibility is to pass through 50% of the Convention and Tourism revenues received to the Commission. Also, if the Commission were to need additional operating funds, the County would be responsible to contribute a portion based on the percentage of Board membership (currently 7%). For the year ended September 30, 2005, the County passed through \$39,179 and was not required to make any additional appropriation.

**6. Related Organizations**

Greater Gratiot Development, Inc. - The purposes of the organization is to conduct an aggressive program for the economic growth and development of the Gratiot County area by assistance and encouragement for the maintenance and expansion of existing business and industry, the acquisition of new business and branch plants, the conduct of such other activities which will broaden the economic base to increase employment and business opportunities, and generally contribute to the advancement and growth of the area for the purpose of benefiting the community. Activities to create jobs and enhance the local tax base are its highest priority. A substantive part of these activities is offering help to new and existing small businesses in obtaining financing and making low interest loans to industrial oriented firms. For the year ended September 30, 2005, the County's contribution to Greater Gratiot Development, Inc. was \$85,038.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Related Organizations - continued

Gratiot County Community Mental Health Services - The Gratiot County Community Mental Health Services (Board) operates under the provisions of PA 258 of 1974, as amended. This organization is an Authority in accordance with the Act and is a completely separate unit of government. Their audit can be obtained at their administrative offices. The Board provides funding for services in the area of mental illness, developmental disabilities, and other related mental health needs for the residents of the County of Gratiot. For the year ended September 30, 2005, the County's contribution to Mental Health Services was \$200,000.

7. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Revenue Sharing Reserve Fund was established to account for the shift of State Revenue Sharing dollars from State to local funding.
- c. The Delinquent Tax Revolving Fund accounts for money advanced by the County to other local taxing units and various County funds to pay for their delinquent real property taxes. Revenues are generated by the collection of delinquent real property taxes, penalties, and interest.

8. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

8. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

9. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

10. Cash and Cash Equivalents

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of temporary investments in certificates of deposit, mutual funds, and time certificates with an original maturity of 90 days or less.



NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

11. Restricted Investments

The Fraker Trust holds funds in a separate account for the future payment of the trust fund expenses related to maintenance or improvement of the park in Pompeii.

12. Investments

Investments consist of certificates of deposit with original maturities of greater than 90 days. Investments are recorded at cost, which approximates market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

13. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

14. Inventories

Inventories in the Drain Tile (Internal Service) Fund consist of equipment parts and materials. These items are valued at cost on a first-in/first-out basis. Inventories in the Road Commission (Component Unit) Fund are priced at cost as determined on the average cost method. Road Commission inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

15. Capital Assets

**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$10,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 50 years
Equipment and furniture	3 - 20 years
Vehicles	3 - 5 years
Drain infrastructure	40 years

**ROAD COMMISSION - COMPONENT UNIT**

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, and similar items), are reported in the government-wide financial statements. Capital assets are defined by Gratiot County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

15. Capital Assets - continued

ROAD COMMISSION - COMPONENT UNIT - CONTINUED

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. Effective with the fiscal year ended September 30, 2003, the Gratiot County Road Commission adopted the provisions of GASB statement No. 34 and also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	8 - 30 years
Infrastructure - Bridges	12 - 50 years

16. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

17. Advances to other governmental units

Long-term advances from the primary government to component units are made to finance new activities during their initial operations and to finance capital acquisitions. The applicable fund balance is reserved in the Fund financial statements for such advances to reflect the amount of fund balance not currently available for expenditure.

18. Accrued Compensated Absences

In accordance with the County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of September 30, 2005, including related payroll taxes, is recorded in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

19. Deferred Revenue

Deferred revenue consists of amounts related to long-term receivables recorded at the fund level that are not available to finance current period expenditures and are therefore deferred or amounts that have not been earned and are deferred at the fund level and government-wide level.

20. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Internal Service Funds are used to record charges for services to all County departments and funds as operating transfers or operating revenue. All County funds record these payments to the Internal Service Funds as operating transfers or operating expenditures/expenses.

21. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the Fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The County employs the following procedures in establishing budgets:

- a. Prior to May 1, the County departments, in conjunction with the Administrator's office, prepare and submit their proposed operating budgets to the Budget and Finance Committee for the fiscal year commencing the following October 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is held to obtain taxpayers' comments.
- c. Prior to September 30, the budgets are legally enacted through passage of an annual budget resolution.
- d. The budgets are legally adopted at the activity level for the General Fund and the fund level for the Special Revenue funds. Budgetary transfers between funds and amendments to total fund budgets are not permitted without Board approval. For control purposes, all funds' budgets are maintained at the activity and account level. The Treasurer and Administrator are authorized to transfer budget amounts between accounts.
- e. The County does not employ encumbrance accounting as an extension of formula budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- f. Applicable budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations that were adopted.

22. Federal Programs

Federal Programs are accounted for in the funds to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

23. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE B: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT**

The County utilizes pooled cash accounts for approximately fifty-five (55) funds. Cash overdrafts of individual funds as of September 30, 2005, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Non-pooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
General Fund	\$ ( 1,594,920 )	\$ 2,191,413	\$ 596,493
Special Revenue Funds			
Friend of the Court	( 58,614 )	-	( 58,614 )
F.I.A. State Monies	( 26,536 )	-	( 26,536 )
TOTAL PRIMARY GOVERNMENT	<u>\$ ( 1,680,070 )</u>	<u>\$ 2,191,413</u>	<u>\$ 511,343</u>

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

The County utilizes various pooled cash accounts and investments for approximately fifty-five (55) funds. The County's pooled cash and investments consist of a common checking account, savings, certificates of deposit, and mutual funds.

The County's pooled cash and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, and Component Unit Funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption in the applicable balance sheet/statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit and mutual funds are separately held by several of the County's funds.

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Federal Deposit Insurance Corporation (FDIC), FSLIC, and NCUA regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits, and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

**Deposits**

As of September 30, 2005, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
<b>PRIMARY GOVERNMENT</b>		
Checking	\$ 2,059,164	\$ 3,488,942
Certificates of deposit	<u>538,208</u>	<u>532,735</u>
Total primary government	2,597,372	4,021,677
<b>COMPONENT UNITS</b>		
Checking and savings	1,940,496	2,208,609
Certificates of deposit	<u>511,171</u>	<u>511,171</u>
Total component units	2,451,667	2,719,780
<b>Fiduciary Funds</b>		
Checking	<u>1,276,620</u>	<u>324,292</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 6,325,659</u>	<u>\$ 7,065,749</u>

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of September 30, 2005, the primary government, component units, and fiduciary fund accounts were insured by the FDIC, FSLIC or NCUA for \$802,371 and the amount of \$6,263,378 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**Investments

As of September 30, 2005, the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
<b>PRIMARY GOVERNMENT</b>				
Uncategorized pooled investments				
Wolverine Bank - Special MMIA	\$ 104,101	\$ 104,101	Not Rated	N/A
MBIA - Michigan Class	308,827	308,827	Not Rated	40 days
AF Government Class I	65,826	65,826	Aaa	1 day
Government & Agency - cash management	171,078	170,598	Aaa	28 days
Federal Home Loan Bank	800,201	794,220	Aaa	4.25 years
Federal Home Loan Mortgage Association	600,903	595,760	Aaa	2 years
Federal National Mortgage Association	<u>499,820</u>	<u>499,820</u>	Aaa	2.5 years
	<u>\$ 2,550,756</u>	<u>\$ 2,539,152</u>		

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2005, rating information on the County's investments is presented above.

Interest rate risk

The County has not adopted a policy that indicates how the County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The County has not adopted a policy that indicates how the County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The County has not adopted a policy that indicates how the County will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of September 30, 2005:

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

	Primary Government	Component Units	Fiduciary Funds	Reporting Entity
Cash and cash equivalents	\$ 2,711,145	\$ 2,451,867	\$ 1,276,620	\$ 6,439,632
Investments - restricted	38,238	-	-	38,238
Investments	<u>2,400,895</u>	<u>-</u>	<u>-</u>	<u>2,400,895</u>
	<u>\$ 5,150,278</u>	<u>\$ 2,451,867</u>	<u>\$ 1,276,620</u>	<u>\$ 8,878,765</u>

The primary government cash and cash equivalents caption on the Statement of Net Assets include \$2,150 in imprest cash. The component unit cash and cash equivalents caption on the Statement of Net Assets includes \$200 in imprest cash. The restricted investment of \$38,238 was being held by the County in a separate account for future maintenance and improvements of the park in Pompeii per a formal trust agreement.

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details interfund receivables and payables related to the primary government at September 30, 2005:

Due to General Fund from:	
Internal Service funds	<u>\$ 2,600</u>
Due to Revenue Sharing Reserve Fund from:	
General Fund	<u>\$ 454,570</u>
Due to Delinquent Tax Revolving Fund from:	
General Fund	\$ 300,000
Nonmajor governmental funds	<u>300,000</u>
	<u>\$ 600,000</u>
Due to nonmajor enterprise funds from:	
Delinquent Tax Revolving Fund	<u>\$ 4,892</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE E: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and component units have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental funds	\$ 12,000
Revenue Sharing Reserve Fund	753,816
Delinquent Tax Revolving	<u>575,000</u>
Total transfers to general fund from other funds	<u>\$ 1,340,816</u>
Transfer to Revenue Sharing Reserve Fund from:	
General Fund	<u>\$ 1,367,058</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE E: INTERFUND TRANSFERS - CONTINUED**

Transfers to nonmajor governmental funds from:	
General Fund	\$ 1,411,273
Nonmajor governmental funds	<u>121,152</u>
Total transfers to nonmajor governmental funds	<u>\$ 1,532,425</u>

**NOTE F: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2005 was as follows:

**Primary Government**

	Balance Oct. 1, 2004	Additions	Deletions	Balance Sept. 30, 2005
Governmental activities				
Capital assets not being depreciated				
Land	\$ 462,623	\$ 56,534	\$ -	\$ 519,157
Construction in progress	<u>-</u>	<u>253,870</u>	<u>-</u>	<u>253,870</u>
Subtotal	462,623	310,404	-0-	773,027
Capital assets being depreciated				
Buildings and additions	9,336,400	-	-	9,336,400
Equipment and furniture	811,259	207,290	-	1,018,549
Vehicles	<u>672,633</u>	<u>200,971</u>	<u>( 217,670 )</u>	<u>655,934</u>
Subtotal	10,820,292	408,261	( 217,670 )	11,010,883
Less accumulated depreciation for				
Buildings and additions	( 2,229,924 )	( 192,087 )	-	( 2,422,011 )
Equipment and furniture	( 398,181 )	( 106,092 )	-	( 504,273 )
Vehicles	<u>( 518,080 )</u>	<u>( 136,173 )</u>	<u>217,670</u>	<u>( 436,583 )</u>
Subtotal	<u>( 3,146,185 )</u>	<u>( 434,352 )</u>	<u>217,670</u>	<u>( 3,362,867 )</u>
Net capital assets being depreciated	<u>7,674,107</u>	<u>( 26,091 )</u>	<u>-0-</u>	<u>7,648,016</u>
Capital assets, net	<u>\$ 8,136,730</u>	<u>\$ 284,313</u>	<u>\$ -0-</u>	<u>\$ 8,421,043</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 234,752
Public safety	175,218
Recreation and cultural	4,491
Health and welfare	<u>19,891</u>
Total depreciation expense	<u>\$ 434,352</u>



## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE F: CAPITAL ASSETS - CONTINUED****Component Unit - Drainage Districts**

	<u>Balance Oct. 1, 2004</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance Sept. 30, 2005</u>
Component Unit - Drainage Districts				
Capital assets not being depreciated				
Construction in progress	\$ 76,891	\$ 277,042	\$( 150,006 )	\$ 203,927
Capital assets being depreciated				
Drains	4,975,893	342,597	-	5,318,490
Equipment and furniture	-	43,949	-	43,949
Vehicles	<u>38,221</u>	<u>-</u>	<u>-</u>	<u>38,221</u>
Subtotal	5,014,114	386,546	-0-	5,400,660
Less accumulated depreciation for				
Drains	( 825,203 )	( 132,962 )	-	( 958,165 )
Equipment and furniture	-	( 2,930 )	-	( 2,930 )
Vehicles	<u>( 4,422 )</u>	<u>( 7,644 )</u>	<u>-</u>	<u>( 12,066 )</u>
Subtotal	<u>( 829,625 )</u>	<u>( 143,536 )</u>	<u>-0-</u>	<u>( 973,161 )</u>
Net capital assets being depreciated	<u>4,184,489</u>	<u>243,010</u>	<u>-0-</u>	<u>4,427,499</u>
Capital assets, net	<u>\$ 4,261,380</u>	<u>\$ 520,052</u>	<u>\$( 150,006 )</u>	<u>\$ 4,631,426</u>

**Component Unit - Central Dispatch Authority**

Component Unit - Central Dispatch				
Capital assets being depreciated				
Equipment	\$ 126,365	\$ -	\$ -	\$ 126,365
Less accumulated depreciation for				
Equipment	<u>( 125,032 )</u>	<u>( 1,333 )</u>	<u>-</u>	<u>( 126,365 )</u>
Capital assets, net	<u>\$ 1,333</u>	<u>\$( 1,333 )</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**Component Unit - Road Commission**

Component Unit - Road Commission				
Capital assets not being depreciated				
Land	\$ 116,903	\$ -	\$ -	\$ 116,903
Infrastructure - Land/Right-of-Way	3,086	-	-	3,086
Infrastructure - Land Improvements	104,758	118,016	-	222,774
Construction in progress	<u>107,213</u>	<u>-</u>	<u>( 107,213 )</u>	<u>-</u>
Subtotal	331,960	118,016	( 107,213 )	342,763

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Component Unit - Road Commission - continued**

	Balance Oct. 1, 2004	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Sept. 30, 2005
Capital assets being depreciated				
Land Improvements	\$ 59,959	\$ -	\$ -	\$ 59,959
Buildings	1,634,255	579,315	-	2,213,570
Road Equipment	4,902,441	547,582	( 340,627 )	5,109,396
Shop Equipment	112,363	-	-	112,363
Office Equipment	212,915	3,234	-	216,149
Engineer's Equipment	90,741	2,223	-	92,964
Yard and Storage	16,573	-	-	16,573
Infrastructure - Bridges	14,695,839	21,092	-	14,716,931
Infrastructure - Roads	29,194,740	2,936,967	( 9,742,102 )	22,389,605
Infrastructure - Traffic Signals	<u>4,558</u>	<u>-</u>	<u>-</u>	<u>4,558</u>
Subtotal	50,924,384	4,090,413	( 10,082,729 )	44,932,068
Less accumulated depreciation for				
Land Improvements	( 34,844 )	( 1,723 )	-	( 36,567 )
Building	( 515,560 )	( 38,541 )	-	( 554,101 )
Road Equipment	( 3,770,669 )	( 507,634 )	198,428	( 4,079,875 )
Shop Equipment	( 71,763 )	( 8,056 )	-	( 79,819 )
Office Equipment	( 129,376 )	( 19,375 )	-	( 148,751 )
Engineer's Equipment	( 75,188 )	( 4,434 )	-	( 79,622 )
Yard and Storage	( 10,842 )	( 828 )	-	( 11,670 )
Infrastructure - Bridges	( 4,044,332 )	( 295,290 )	-	( 4,339,622 )
Infrastructure - Roads <sup>(1)</sup>	( 15,669,126 )	( 1,697,697 )	9,587,836	( 7,778,987 )
Infrastructure - Traffic Signals	<u>( 4,044 )</u>	<u>( 74 )</u>	<u>-</u>	<u>( 4,118 )</u>
Subtotal	<u>( 24,325,744 )</u>	<u>( 2,573,652 )</u>	<u>9,786,264</u>	<u>( 17,113,132 )</u>
Capital assets being depreciated, net	<u>26,598,640</u>	<u>1,516,761</u>	<u>( 296,465 )</u>	<u>27,818,936</u>
Total capital assets, net	<u>\$ 26,930,600</u>	<u>\$ 1,634,777</u>	<u>\$( 403,678 )</u>	<u>\$ 28,161,699</u>

<sup>(1)</sup> Sealcoat roads were removed from the capital asset records due to a change in the PA 51 of 1951 definition which defined it as preventative maintenance.

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct equipment	\$ 507,634
Indirect equipment	
Shop building	25,170
Storage building	829
Shop equipment	8,056
State salt shed	8,929
Net Administrative Expense	
Buildings	4,442
Office equipment and furniture	19,375
Engineers Equipment	4,434
Land and Improvements	1,723
Infrastructure	<u>1,993,060</u>
Total depreciation expense	<u>\$ 2,573,652</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE G: LONG-TERM DEBT**

The following is a summary of changes in long term debt (including current portion) of the County for the year ended September 30, 2005:

	Balance Oct. 1, 2004	Additions	Deletions	Balance Sept. 30, 2005	Amounts Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
Governmental Activities					
Direct County Obligations - Bonds	\$ 3,737,371	\$ -	\$ 215,655	\$ 3,521,716	\$ 265,889
Accrued compensated absences	<u>563,862</u>	<u>52,206</u>	<u>-</u>	<u>616,068</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	4,301,233	52,206	215,655	4,137,784	265,889
<b>COMPONENT UNITS</b>					
Road Commission					
Accrued compensated absences	286,354	43,669	-	330,023	-
Board of Public Works					
Water and sewer bonds	810,000	-	45,000	765,000	45,000
Drainage Districts					
Drain bonds and notes	<u>1,033,770</u>	<u>559,200</u>	<u>312,375</u>	<u>1,280,595</u>	<u>378,960</u>
<b>TOTAL COMPONENT UNITS</b>	<u>2,130,124</u>	<u>602,869</u>	<u>357,375</u>	<u>2,375,618</u>	<u>423,960</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 6,431,357</u>	<u>\$ 655,075</u>	<u>\$ 573,030</u>	<u>\$ 6,513,402</u>	<u>\$ 689,849</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

**PRIMARY GOVERNMENT**

Direct County Obligations - Bonds

The Gratiot County Board of Commissioners is party to three (3) long-term lease agreements for rental of the Mental Health Building, the District Health and Jail renovations, and the Courthouse addition from the Gratiot County Building Authority. The lease agreements stipulate that the annual rentals be paid by the County to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds, which shall be pledged exclusively for that purpose. When all debt has been retired for the buildings, the rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County.

Bonds payable at September 30, 2005 is as follows:

\$2,100,000 Gratiot County Building Authority Bonds (District Health and Jail Renovations) - Series 2001, dated May 1, 2001, due in annual installments ranging from \$75,000 to \$200,000 through May 1, 2019, with interest ranging from 4.15 to 5.00 percent, payable semi-annually. \$ 1,900,000

\$490,000 Gratiot County Building Authority Bonds (Mental Health Addition) - Series 1988, dated March 1, 1988, due in annual installments ranging from \$35,000 to \$50,000 through November 1, 2008, with interest ranging from 7.70 to 7.80 percent, payable semi-annually. 175,000

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE G: LONG-TERM DEBT - CONTINUED**

PRIMARY GOVERNMENT - CONTINUED

Direct County Obligations - Bonds - continued

\$2,500,000 Gratiot County Building Authority Bonds (Courthouse renovation) - Series 1994, dated February 15, 1994, due in annual installments ranging from \$150,000 to \$200,000 through May 1, 2013, with interest ranging from 4.50 to 4.875 percent, payable semi-annually.	\$ 1,400,000
\$60,000 County of Gratiot Capital Improvement Bonds (Fairgrounds) - Series 2002, dated August 26, 2002, due in semi-annual installments ranging from \$2,915 to \$3,795 through May 1, 2012, with interest of 4.099 percent, payable semi-annually.	<u>46,716</u>
	<u>\$ 3,521,716</u>

Accrued Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$229,648 and \$386,420 for vacation and sick, respectively, at September 30, 2005. This amount, \$616,068, has been reported as a noncurrent liability.

COMPONENT UNIT - ROAD COMMISSION

Accrued Compensated Absences

In accordance with County Road Commission personnel policies and/or contracts negotiated with various employee groups of the County Road Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$156,271 and \$173,752 for vacation and sick, respectively, at September 30, 2005. This amount, \$330,023, has been reported as a noncurrent liability.

COMPONENT UNIT - BOARD OF PUBLIC WORKS

Indirect County Obligations - Water and Sewer Bonds

The County has irrevocably pledged its full faith and credit as collateral for the following water and sewer system bonds. These projects are administered by the Gratiot County Drain Commission for local municipalities. Payments by the municipalities to the County, in accordance with contractual agreements, provide the monies required to meet the principal and interest on the water and sewer system bonds.

Bonds payable at September 30, 2005, per respective Water and Sewer System construction projects serviced from the Component Unit Debt Service Funds are as follows:

\$345,000 County of Gratiot, North Star Community Sanitary Sewer System Bonds, dated August 1, 1996, due in annual installments ranging from \$10,000 to \$25,000 through May 1, 2022, with interest ranging from 5.20 to 6.00 percent, payable semi-annually.	\$ 285,000
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Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE G: LONG-TERM DEBT - CONTINUED**

COMPONENT UNIT - BOARD OF PUBLIC WORKS - CONTINUED

Indirect County Obligations - Water and Sewer Bonds - continued

\$320,000 County of Gratiot, Pompeii Community Sanitary Sewer System Bonds, dated August 1, 1996, due in annual installments ranging from \$10,000 to \$20,000 through May 1, 2022, with interest ranging from 5.2 to 6.0 percent, payable semi-annually. \$ 270,000

\$285,000 County of Gratiot Water Supply Bonds (Village of Perrinton) Water Supply System improvements - Series 2002, dated January 1, 2002, due in annual installments ranging from \$25,000 to \$35,000 through May 1, 2012, with interest ranging from 3.90 to 4.85 percent, payable semi-annually. 210,000

TOTAL WATER AND SEWER BONDS \$ 765,000

COMPONENT UNIT - DRAINAGE DISTRICTS

Drain Notes

The County has irrevocably pledged its full faith and credit as collateral for the following drain notes. These projects are administered by the Gratiot County Drain Commission for various local drainage districts. The drain notes were issued to finance the various Construction Funds for the purpose of paying costs in connection with various drainage district projects and are payable out of assessments to be made against the benefited properties.

Notes payable at September 30, 2005, per respective Drain projects serviced from the Component Unit Debt Service Funds are as follows:

Various drain notes due in various annual installments and interest rates through 2013. \$ 1,280,595

The annual requirements to pay the debt principal and interest outstanding for the above Bonds and Notes are as follows:

**Primary Government**

Year Ending <u>September 30,</u>	<u>Direct County Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 265,889	\$ 170,213
2007	276,134	156,453
2008	276,387	142,275
2009	331,652	127,693
2010	281,927	112,467
2011-2015	1,214,727	367,287
2016-2020	<u>875,000</u>	<u>138,750</u>
	<u>\$ 3,521,716</u>	<u>\$ 1,215,138</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE G: LONG-TERM DEBT - CONTINUED**

**Component Units**

<u>Year Ending September 30,</u>	<u>Board of Public Works Water and Sewer Bonds</u>		<u>Drainage Districts Drain Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 45,000	\$ 41,718	\$ 378,960	\$ 41,105
2007	50,000	39,702	312,181	42,137
2008	50,000	37,412	274,832	39,401
2009	50,000	35,043	150,530	12,703
2010	60,000	32,592	89,675	6,840
2011-2015	220,000	119,620	74,417	6,870
2016-2020	200,000	63,000	-	-
2021-2025	90,000	8,100	-	-
	<u>\$ 765,000</u>	<u>\$ 377,187</u>	<u>\$ 1,280,595</u>	<u>\$ 149,056</u>

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT**

**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)**

Plan Description

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public employee retirement system. MERS is authorized and operated under State law, Act 135 of Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time and regular part-time County employees are covered by the retirement system with the exception of the Mental Health and Road Commission employees. The Road Commission employees are covered under a separate retirement plan. Effective September 30, 2000, the MERS became a closed pension system. New hires are not allowed to participate in the MERS.

Annual Pension Cost

For the year ended September 30, 2005 the County's annual pension cost of \$592,531 for the plan was equal to the County's required contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2002 using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT - CONTINUED**

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$10,927,677	\$11,802,020	\$12,630,829
Actuarial accrued liability (AAL) (entry age)	15,025,431	16,505,312	17,708,602
Unfunded AAL	4,097,754	4,703,292	5,077,773
Funded ratio	73%	72%	71%
Covered payroll	3,199,381	3,147,000	3,248,639
UAAL as a percentage of covered payroll	128%	149%	156%
Annual pension cost	516,775	549,549	592,531
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

COMPONENT UNIT - ROAD COMMISSION

Description of Plan and Plan Assets

The Gratiot County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1951 (MCA 5.333(a)); MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of their annual compensation to the plan, which amounted to \$49,689. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 8.57% for general employees and 6.09% for salaried employees, for the calendar year December 31, 2004 based on 2002 actuarial.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT - CONTINUED**

## COMPONENT UNIT - ROAD COMMISSION - CONTINUED

Annual Pension Cost

During the calendar year ended December 31, 2004, the Road Commission's contributions totaling \$128,685 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The employees contributed \$49,689 in accordance with the personnel policy and bargaining unit agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer's normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information for GASB Statement No. 27

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 84,839	100 %	\$ -0-
2003	82,268	100	-0-
2004	128,685	100	-0-

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$ 9,160,395	\$ 9,613,880	\$ 453,485	95 %	\$ 1,518,440	30 %
12/31/03	9,413,084	9,981,248	568,164	94	1,533,716	37
12/31/04	9,665,886	10,337,470	671,584	94	1,659,170	40

**NOTE I: EMPLOYEE RETIREMENT SYSTEM - DEFINED CONTRIBUTION**Plan Description

The County has also established a 401 Money Purchase Plan for all new hires effective October 1, 2000, which meets the criteria of GASB Statement 27 as a Defined Contribution Plan. The Plan is administered by the International City Management Association (ICMA) Retirement Corporation, a nonprofit corporation. ICMA is an investment advisor registered with the Securities and Exchange Commission under Investment Advisors Act of 1940, as amended, and under the Uniform Securities Act, 1964 PA 265, Michigan Compiled Laws 451.501-451.818, to the extent required by law.

Funding Policy

If covered employees contribute 0% of their annual salary to the plan the County must contribute 5% of each participant's annual salary. The County will contribute 10% if the participant chooses to contribute 5% subject to limitations of sections 415 (c) and (e) of the Internal Revenue Code.



NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE J: CONTINGENT LIABILITIES**

The County participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The Single Audit of the Federal Programs and the periodic program compliance audits of many of the State programs have not yet been completed or final resolution has not been received. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

There are various legal actions pending against the County. Due to the inconclusive nature of many of the actions, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the County's potential liability, if any. Those actions for which a reasonable estimate can be determined of the County's potential liability and that would not be covered by insurance and reserves, if any, are considered by County Management and Legal Counsel to be immaterial.

**NOTE K: ROAD COMMISSION FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2005, the Federal aid received and expended by the Gratiot County Road Commission was \$1,288,240 for contracted projects. The Road Commission neither received nor expended any federal money for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission. Due to these facts, all of these funds have been excluded from the County's Single Audit, which is presented under separate cover.

**NOTE L: RISK MANAGEMENT**

The County participates in a pool, the Michigan Counties' Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The County has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately. The Authority administers a risk management fund providing Gratiot County with loss protection for general and auto liability, motor vehicle, and physical damage and property damage.

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Gratiot County with loss protection for general and auto liability, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE L: RISK MANAGEMENT - CONTINUED**

<u>Type of Risk</u>	<u>Maximum Retention Per Occurrence</u>
General and auto liability	\$ 100,000
Property coverage	10,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

In addition, the Authority has accumulated resources to create and fund an Internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$130,000 net of reinsurance for any one (1) member in any one (1) year. Aggregate paid losses in excess of \$130,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund resources are insufficient to fund losses, the remaining liability shall become the responsibility of the Authority as a whole.

At September 30, 2005, the County had funds on deposit of (\$33,888) with the Authority in the Member Retention Funds. The Authority's reported reserves at September 30, 2005 for reported claims related to the County was \$15,157.

Gratiot County is self insured for health insurance up to \$15,000 for each employee contract, and is also self insured on an aggregate level of \$6,114 per contract. The County is insured for the amount of claims in excess of the \$15,000 per person, and/or a total medical claims amount which exceeds the aggregate attachment point of \$6,114 per contract, annually. The County's program is administered by Blue Cross and Blue Shield of Michigan, which furnishes claims review and processing.

**COMPONENT UNIT - ROAD COMMISSION**

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Gratiot County Road Commission became a charter member in 1982.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses for the member is the sole obligation of the member.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE M: PROPERTY TAXES AND TAXES RECEIVABLE**

The County property tax is levied each December 1 and July 1 on the taxable valuation of property located in the County as of the preceding December 31.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax is being recognized. The purpose of the fund is to accumulate reserves of the County's own local funds from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy is shifting over the next three years from winter to summer.

The County's Winter 2004 and Summer 2005 ad valorem taxes were levied and collectible on December 1, 2004 and July 1, 2005, respectively. It is the County's policy to recognize revenues from the tax levy in the year when the proceeds of the levy are budgeted and made available for the financing of County operations. As a result, the County's Winter 2004 and Summer 2005 tax levies have been recognized as revenue in the current fiscal year. The 2004 taxable value of Gratiot County amounted to \$746,189,977 on which ad valorem taxes levied for County general operating purposes consisted of 5.5401 mills for Winter 2004 and 1.8467 mills for Summer 2005. The Gratiot County Commission on Aging has levied .6443 mills for services related to the aging within the County. The Gratiot County Parks have levied .3500 mills for services related to parks and recreation within the County.

By resolution of the Board of Commissioners and agreement with various taxing authorities, the County purchased at face value the real property taxes receivable returned delinquent on March 1, 2005. Subsequent collections of delinquent taxes receivable, plus interest thereon and investment earnings, are used to repay the funds distributed by the Delinquent Tax Revolving Fund. This activity is accounted for in the Delinquent Tax Revolving (Enterprise) Fund.

**NOTE N: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance which the County has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management plans for these funds.

The following are the various fund balance reserves and designations as of September 30, 2005:

PRIMARY GOVERNMENT

General Fund

Reserved for prepaids	\$ 3,084
Reserved for advances to other governmental units	<u>292,528</u>
	<u>\$ 295,612</u>

Nonmajor governmental funds

Reserved for parks	\$ 39,032
Reserved for prepaids	<u>4,317</u>
	<u>43,349</u>
	<u>\$ 46,433</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE N: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED**

PRIMARY GOVERNMENT - CONTINUED

General Fund	
Designated for	
Private donation	\$ 781
Veterans	200
Handicap	4,658
Renaissance zone	171,077
Circuit Court Counsel	46,500
Prosecuting Attorney	36,332
Liquor law enforcement	<u>16,684</u>
	<u>\$ 276,232</u>

**NOTE O: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of September 30, 2005:

PRIMARY GOVERNMENT

Governmental activities	
Restricted for	
Public safety	
Drug law enforcement	\$ 15,011
Secondary road patrol	14,061
Michigan justice training	8,333
Corrections officer training	<u>20,001</u>
	<u>\$ 57,406</u>
Other purposes	
Mental health lease	\$ 70,531
Solid waste planning	887
Emergency contingency	25,000
Law library	8,280
Commission on aging	141,352
Community development	68,786
Clinton County child care	21,593
Social welfare	63,211
Gratiot County child welfare	42,746
Child care - juvenile	2,600
Parks	<u>39,032</u>
	<u>\$ 484,018</u>
Capital improvement	<u>\$ 15,949</u>

COMPONENT UNIT

Road Commission	
Restricted for County roads	<u>\$ 1,709,589</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE P: PRIOR PERIOD ADJUSTMENTS**

The following prior period adjustments were made during the period, which was the result of the correction of accounting errors. This adjustment was reported as a change to the beginning net assets. The effect on operations and other affected balances for the current and prior period are as follows:

	September 30,		
	<u>2005</u>	<u>2004</u>	<u>Description</u>
PRIMARY GOVERNMENT			
General Fund			
Expenditures	\$ -	\$( 9,951 )	Correct overstated expenditures
Revenues over (under) expenditures	-	9,951	
Fund balance - beginning	9,951	-	
Due from other governments	-	( 6,744 )	Correct overstated due from other governments
Revenues over (under) expenditures	-	( 6,744 )	
Fund balance - beginning	( 6,744 )	-	
Business-type activities			
Delinquent Tax Revolving Fund			
Transfers out	-	16,011	Correct understated transfers out
Change in net assets	-	( 16,011 )	
Net assets - beginning	( 16,011 )	-	
Tax Fees and Sale Proceeds Fund			
Transfers in	-	16,011	Correct understated transfers in
Change in net assets	-	16,011	
Net assets - beginning	16,011	-	

**NOTE Q: POST-EMPLOYMENT BENEFITS**

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

In addition to providing pension benefits, the County provides certain health care benefits for employees who retired on or after 1987. Substantially all of the County's employees may become eligible for those benefits if they reach the normal retirement age of 60 with at least ten (10) years of credited service, or reach the age of 55 with at least 25 years of credited service, while working for the County. The County will pay \$500 per year toward the cost of health insurance premiums and an additional \$200 per year for each year of credited service over ten (10) years, up to a maximum of \$2,500 for all employees except sheriff's union employees, which receive up to a maximum of \$3,500.

Upon reaching the age of 65, the County provided benefits are reduced to \$55.60 per month, plus 1/2 of the increase in premium cost over this amount. This reduction is due to the retirees becoming eligible for Medicare coverage at that time.

The cost of retirees' health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended September 30, 2005, those costs totaled \$76,930. In addition, \$1,238 was paid for life insurance premiums. These costs were paid for by all applicable funds based on approved full-time equivalents (FTE's).

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE Q: POST-EMPLOYMENT BENEFITS - CONTINUED**

**COMPONENT UNIT - ROAD COMMISSION**

Prior to July 31, 1997 for road commission union personnel and prior to December 31, 1997 for salaried road commission personnel, the policies provide for the retirees to continue hospitalization coverage by paying their premium to the employer in advance. In the event the employee's monthly premium is more than one month late, the coverage will be canceled. Effective August 1, 1997 for road commission union employees and January 1, 1998 for road commission salaried employees, the Road Commission agrees to pay the \$200 per month of the hospitalization coverage premium for any union member or salaried employee who retires after the effective date (August 1, 1997 for union and January 1, 1998 for salaried), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 years. One person qualified under this policy during fiscal year ending September 30, 2005.

Effective August 1, 2000 for road commission union employees and December 1, 2000 for road commission salaried employees, the Road Commission agrees to pay \$400 per month towards the hospitalization coverage premium for any employee who retires after the effective date (August 1, 2000 for union and December 1, 2000 for salaried employees), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. Three people qualified under this policy during the fiscal year ending September 30, 2005.

Effective August 1, 2003, the Road Commission agrees to pay \$600 per month towards the hospitalization coverage premium for any employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2005.

The Road Commission funds this benefit on a pay-as-you-go-basis and contributed \$16,185 for hospitalization benefits during the fiscal year ended September 30, 2005.

**UPCOMING REPORTING CHANGE**

The Governmental Accounting Standards Board has recently related Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2008.

**NOTE R: FUND DEFICIT**

The following fund had a fund balance deficit at September 30, 2005:

Primary Government	
Nonmajor governmental funds	
Construction fund	<u>\$ 261,844</u>

This fund is in a deficit strictly due to timing of the receipt of bond proceeds. Preissuance costs were incurred prior to the receipt of bond proceeds which are described in Note S.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE S: SUBSEQUENT EVENTS**

After the year ended September 30, 2005, the following significant events occurred:

On October 1, 2005, the County issued General Obligation Limited Tax Bonds, Series 2005 in the amount of \$1,400,000 to finance the construction of the central dispatch building. The bonds were issued with a rating of AAA from Standard and Poor's. Annual debt service begins in April 2006 and ends in October 2025.

On October 1, 2005, the County implemented a defined contribution plan for all non-union employees hired on or after October 1, 2005. According to this plan employees who do not elect to contribute their own funds will receive a 3% contribution from the County. Employees who contribute 3% will receive a 6% contribution from the County.

**NOTE T: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

In the body of the financial statements, the County's budgeted expenditures in the General Fund and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the County have been adopted at the activity level for the General Fund and the total expenditure level for the major Special Revenue Funds.

During the year ended September 30, 2005, the County incurred expenditures in the General Fund and three (3) nonmajor Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Circuit Court	\$ 226,483	\$ 237,869	\$ 11,386
Juvenile Court	127,937	136,640	8,703
Clerk	331,441	332,108	667
Buildings and grounds	436,349	452,602	16,253
Other	3,600	3,642	42
Community and economic development			
East-Central Michigan Planning	5,200	5,500	300
Special Revenue Funds			
Commission on Aging	808,148	844,771	36,623
Clinton County Child Care	228,000	229,523	1,523
Animal Control	2,000	2,005	5

**NOTE U: CONTRACTUAL COMMITMENTS**

The County has entered into various contracts associated with the central dispatch building construction. The amount of the contractual commitments outstanding as of September 30, 2005 was \$460,274 which will be financed using available bond proceeds from the \$1,400,000 G.O. Bonds issued October 1, 2005.

## **REQUIRED SUPPLEMENTARY INFORMATION**



Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND  
OTHER FINANCING SOURCES

Year Ended September 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes				
Current and delinquent property taxes	\$ 3,717,331	\$ 5,084,389	\$ 5,112,404	\$ 28,015
Personal property taxes	372,015	389,067	391,099	2,032
Payments in lieu of taxes	6,000	7,160	13,880	6,720
Mobile home park taxes	3,500	3,500	4,514	1,014
Industrial facility tax	75,248	79,203	96,969	17,766
Interest and penalty	1,000	1,000	2,004	1,004
Total taxes	4,175,094	5,564,319	5,620,870	56,551
Licenses and permits				
Dog licenses	104,000	97,000	97,542	542
Other licenses and permits	20,000	35,274	40,619	5,345
Total licenses and permits	124,000	132,274	138,161	5,887
Intergovernmental				
Federal/State				
Prosecuting Attorney CRP	46,000	46,000	47,110	1,110
Sheriff - inmate housing	30,000	31,500	33,266	1,766
Sheriff - diverted felon	30,000	13,000	14,197	1,197
Convention facility liquor tax	76,000	78,357	78,357	-0-
Victims' Rights	42,400	40,010	41,449	1,439
Judges standardization	98,000	98,000	91,448	(6,552)
Probate court judge	94,195	94,195	101,783	7,588
Justice grant	-	3,163	3,164	1
Juvenile court director	28,000	28,000	27,317	(683)
State caseflow assistance	23,500	29,070	25,525	(3,545)
Tobacco - juvenile	350	350	-	(350)
Cigarette tax	39,000	24,318	24,318	-0-
Court equity/cost	286,000	280,517	278,516	(2,001)
Emergency management	168,287	268,868	257,573	(11,295)
Remonumentation grant	60,000	90,770	90,769	(1)
Bullet proof vest grant	15,300	15,300	16,109	809
Local	88,000	130,000	133,889	3,889
Total intergovernmental	1,125,032	1,271,418	1,264,790	(6,628)

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND  
OTHER FINANCING SOURCES - CONTINUED

Year Ended September 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES - CONTINUED				
Charges for services				
Sheriff	\$ 72,300	\$ 80,800	\$ 80,736	\$ (64)
Treasurer fees	5,000	5,000	4,948	(52)
Information management	1,350	1,350	1,269	(81)
District Court	1,324,100	1,224,694	1,176,319	(48,375)
Circuit Court	3,550	3,550	2,334	(1,216)
Prosecuting Attorney	2,400	2,400	993	(1,407)
Juvenile Court	71,000	71,000	71,703	703
Clerk	85,000	100,000	98,254	(1,746)
Register of deeds	250,000	266,500	275,689	9,189
Equalization	1,800	1,800	1,327	(473)
Probate Court	30,700	30,700	30,925	225
Animal control	4,000	4,000	4,929	929
Remonumentation	9,500	9,500	12,600	3,100
Liquor law enforcement	9,000	9,000	10,229	1,229
Fairground fee	7,745	7,745	7,745	-0-
Tax administration fee	65,250	66,500	68,250	1,750
Total charges for services	1,942,695	1,884,539	1,848,250	(36,289)
Fines and forfeits				
Bond forfeitures	1,000	1,000	750	(250)
District Court	67,000	85,000	81,086	(3,914)
Total fines and forfeits	68,000	86,000	81,836	(4,164)
Interest and rents				
Interest on investments	25,000	19,000	20,556	1,556
Rents	10,500	10,500	4,054	(6,446)
Total interest and rents	35,500	29,500	24,610	(4,890)
Other				
Contributions	300	300	165	(135)
Sale of capital assets	35,000	35,000	15,310	(19,690)
Reimbursements - indirect costs	90,550	114,322	115,665	1,343
Reimbursements - direct costs	70,240	67,990	74,204	6,214
Reimbursements - other	34,200	47,800	36,747	(11,053)
Other	1,800	1,250	1,192	(58)
Total other	232,090	266,662	243,283	(23,379)
TOTAL REVENUES	7,702,411	9,234,712	9,221,800	(12,912)

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND  
OTHER FINANCING SOURCES - CONTINUED

Year Ended September 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES				
Transfers in				
Law library	\$ 12,000	\$ 12,000	\$ 12,000	\$ -0-
Revenue sharing reserve	737,850	753,816	753,816	-0-
Delinquent tax revolving	<u>563,000</u>	<u>575,000</u>	<u>575,000</u>	<u>-0-</u>
Total transfers in	<u>1,312,850</u>	<u>1,340,816</u>	<u>1,340,816</u>	<u>-0-</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 9,015,261</u>	<u>\$ 10,575,528</u>	<u>\$ 10,562,616</u>	<u>\$ (12,912)</u>

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND  
OTHER FINANCING USES BY ACTIVITY

Year Ended September 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General government				
Circuit Court	\$ 203,582	\$ 226,483	\$ 237,869	\$ (11,386)
District Court	676,971	676,971	674,548	2,423
Probate Court	341,599	340,699	333,393	7,306
Juvenile Court	127,937	127,937	136,640	(8,703)
Board of Commissioners	147,571	146,321	141,478	4,843
County Administrator	162,075	163,075	161,528	1,547
Elections	49,685	60,238	57,928	2,310
Clerk	315,250	331,441	332,108	(667)
Equalization	168,004	167,288	165,621	1,667
Prosecuting Attorney	518,273	526,333	521,920	4,413
Register of Deeds	173,393	173,393	167,531	5,862
County survey and remonumentation	61,488	92,258	89,425	2,833
Treasurer	206,541	206,541	199,459	7,082
Cooperative extension	122,751	124,751	123,877	874
Information management	150,724	150,493	138,857	11,636
Buildings and grounds	425,272	436,349	452,602	(16,253)
Drain commissioner	351,526	332,647	326,961	5,686
Gratiot community airport	47,600	47,600	47,600	-0-
Other	3,600	3,600	3,642	(42)
Insurance and bonds	131,500	141,189	141,189	-0-
Total general government	4,385,342	4,475,607	4,454,176	21,431
Public safety				
Sheriff - general	1,269,533	1,323,623	1,303,526	20,097
Jail	1,207,031	1,186,259	1,145,418	40,841
Liquor law enforcement	9,000	9,000	3,505	5,495
Planning commission	2,115	2,115	1,105	1,010
Emergency services	156,859	290,808	289,193	1,615
Animal control	129,999	129,999	128,320	1,679
Handicap parking enforcement	4,400	2,460	-	2,460
Total public safety	2,778,937	2,944,264	2,871,067	73,197
Public works				
Department of public works	1,077	1,077	347	730

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND  
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended September 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES - CONTINUED				
Health and welfare				
Mid-Michigan District Health Department	\$ 280,303	\$ 270,644	\$ 270,644	\$ -0-
Gratiot Community Mental Health	200,000	200,000	200,000	-0-
Contagious disease	6,000	4,000	3,395	605
Substance abuse appropriation	35,350	39,779	39,179	600
Medical examiner	33,411	45,411	45,013	398
Veterans counselor	25,047	25,047	23,560	1,487
Veterans burials	8,000	8,000	7,879	121
Total health and welfare	588,111	592,881	589,670	3,211
Community and economic development				
East-Central Michigan Planning	5,200	5,200	5,500	(300)
Greater Gratiot Development	85,078	85,078	85,038	40
Plat board	538	538	-	538
Renaissance zone	1,000	1,000	580	420
Zoning board	1,427	1,427	780	647
Total community and economic development	93,243	93,243	91,898	1,345
Other				
Contingency	25,000	-0-	-0-	-0-
TOTAL EXPENDITURES	7,871,710	8,107,072	8,007,158	99,914

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND  
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended September 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING USES				
Transfers out				
Friend of the court	\$ 65,000	\$ 65,000	\$ 53,000	\$ 12,000
Solid waste management	839	839	-	839
Revenue sharing reserve	-	1,367,058	1,367,058	-0-
Family independence agency	5,500	5,500	5,500	-0-
Child care - juvenile fund	782,246	778,011	666,427	111,584
Gratiot county child welfare	60,000	60,000	60,000	-0-
Marine safety	1,000	1,000	1,000	-0-
Soldiers and sailors	2,000	2,000	2,000	-0-
Building authority - jail	160,724	142,713	142,712	1
Courthouse renovation	196,531	196,531	196,531	-0-
Fairground improvement	7,745	7,745	7,745	-0-
Secondary road patrol	50,540	50,540	50,540	-0-
COPS grant	60,000	60,000	60,000	-0-
Capital improvement	113,000	152,453	159,218	(6,765)
Building inspection	-	6,000	6,000	-0-
K-9 unit sheriff	-	600	600	-0-
Total transfers out	1,505,125	2,895,990	2,778,331	117,659
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 9,376,835	\$ 11,003,062	\$ 10,785,489	\$ 217,573

Gratiot County, Michigan  
Revenue Sharing Reserve Fund  
BUDGETARY COMPARISON SCHEDULE  
Year Ended September 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES	\$ -	\$ -	\$ -0-	\$ -0-
EXPENDITURES				
Current				
General government	-	158,668	158,668	-0-
EXCESS OF REVENUES (UNDER) EXPENDITURES	-0-	(158,668)	(158,668)	-0-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,400,000	1,367,058	(32,942)
Transfers out	-	(753,816)	(753,816)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	646,184	613,242	(32,942)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING (USES)	-0-	487,516	454,574	(32,942)
Fund balance, beginning of year	-	-	-0-	-0-
Fund balance, end of year	<u>\$ -0-</u>	<u>\$ 487,516</u>	<u>\$ 454,574</u>	<u>\$ (32,942)</u>

## **OTHER SUPPLEMENTARY INFORMATION**



Gratiot County, Michigan  
Nonmajor Governmental Funds  
COMBINING BALANCE SHEET  
September 30, 2005

	Special		
	Friend of the Court	Mental Health Lease	Solid Waste Planning
<b>ASSETS</b>			
Cash and cash equivalents	\$ (58,614)	\$ 70,531	\$ 887
Investments - restricted	-	-	-
Accounts receivable	775	-	-
Due from other governmental units - Federal/State	90,658	-	-
Prepays	1,542	-	-
<b>TOTAL ASSETS</b>	<b>\$ 34,361</b>	<b>\$ 70,531</b>	<b>\$ 887</b>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 392	\$ -	\$ -
Accrued payroll	22	-	-
Deferred revenue	-	-	-
Due to other funds	-	-	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	<b>414</b>	<b>-0-</b>	<b>-0-</b>
<b>FUND BALANCES (DEFICIT)</b>			
Reserved for			
Parks	-	-	-
Prepays	1,542	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	32,405	70,531	887
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b>33,947</b>	<b>70,531</b>	<b>887</b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<b>\$ 34,361</b>	<b>\$ 70,531</b>	<b>\$ 887</b>

Revenue

Building Inspection	Register of Deeds	Emergency Contingency	Drug Law Enforcement	Law Enforcement
\$ 4,500	\$ 54,000	\$ 25,000	\$ 15,011	\$ 5,295
-	-	-	-	-
-	300	-	-	-
-	-	-	-	-
-	2,775	-	-	-
<u>\$ 4,500</u>	<u>\$ 57,075</u>	<u>\$ 25,000</u>	<u>\$ 15,011</u>	<u>\$ 5,295</u>
\$ 176	\$ -	\$ -	\$ -	\$ -
3,996	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
4,172	-0-	-0-	-0-	-0-
-	-	-	-	-
-	2,775	-	-	-
328	54,300	25,000	15,011	5,295
-	-	-	-	-
-	-	-	-	-
<u>328</u>	<u>57,075</u>	<u>25,000</u>	<u>15,011</u>	<u>5,295</u>
<u>\$ 4,500</u>	<u>\$ 57,075</u>	<u>\$ 25,000</u>	<u>\$ 15,011</u>	<u>\$ 5,295</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2005

	Special		
	Law Library	Disaster Fund	Commission on Aging
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,280	\$ 5,375	\$ 169,290
Investments - restricted	-	-	-
Accounts receivable	-	-	16,972
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 8,280</u>	<u>\$ 5,375</u>	<u>\$ 186,262</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ -	\$ 32,461
Accrued payroll	-	-	12,449
Deferred revenue	-	-	-
Due to other funds	-	-	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	-0-	-0-	44,910
<b>FUND BALANCES (DEFICIT)</b>			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	8,280	5,375	141,352
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<u>8,280</u>	<u>5,375</u>	<u>141,352</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<u>\$ 8,280</u>	<u>\$ 5,375</u>	<u>\$ 186,262</u>

Revenue				
D.A.R.E. Program	Secondary Road Patrol	Clinton County Child Care	COPS Grant	F.I.A. State Monies
\$ 7,202	\$ 17,436	\$ 17,032	\$ 52,185	\$ (26,536)
-	-	-	-	-
-	-	4,561	-	-
-	-	-	46,458	36,420
-	-	-	-	-
<u>\$ 7,202</u>	<u>\$ 17,436</u>	<u>\$ 21,593</u>	<u>\$ 98,643</u>	<u>\$ 9,884</u>
\$ -	\$ 411	\$ -	\$ 4,646	\$ -
-	2,964	-	4,018	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-0-	3,375	-0-	8,664	-0-
-	-	-	-	-
-	-	-	-	-
7,202	14,061	21,593	89,979	9,884
-	-	-	-	-
-	-	-	-	-
<u>7,202</u>	<u>14,061</u>	<u>21,593</u>	<u>89,979</u>	<u>9,884</u>
<u>\$ 7,202</u>	<u>\$ 17,436</u>	<u>\$ 21,593</u>	<u>\$ 98,643</u>	<u>\$ 9,884</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2005

	Special		
	Gratiot County Child Welfare	Soldiers & Sailors	Veteran Trust
ASSETS			
Cash and cash equivalents	\$ 36,290	\$ 1,985	\$ 893
Investments - restricted	-	-	-
Accounts receivable	6,456	-	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
TOTAL ASSETS	<u>\$ 42,746</u>	<u>\$ 1,985</u>	<u>\$ 893</u>
LIABILITIES AND FUND BALANCES (DEFICIT)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 19
Accrued payroll	-	-	-
Deferred revenue	-	-	-
Due to other funds	-	-	-
Due to other governmental units	-	-	-
TOTAL LIABILITIES	-0-	-0-	19
FUND BALANCES (DEFICIT)			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	42,746	1,985	874
Debt service funds	-	-	-
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICIT)	<u>42,746</u>	<u>1,985</u>	<u>874</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	<u>\$ 42,746</u>	<u>\$ 1,985</u>	<u>\$ 893</u>

Revenue				
Veterans Memorial	Animal Control	Marine Safety	Fraker Trust	Michigan Justice Training
\$ 10,167	\$ 7,990	\$ 2,228	\$ 272	\$ 8,406
-	-	-	38,238	-
-	325	-	522	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 10,167</u>	<u>\$ 8,315</u>	<u>\$ 2,228</u>	<u>\$ 39,032</u>	<u>\$ 8,406</u>
\$ -	\$ 40	\$ -	\$ -	\$ 73
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-0-	40	-0-	-0-	73
-	-	-	39,032	-
-	-	-	-	-
10,167	8,275	2,228	-	8,333
-	-	-	-	-
-	-	-	-	-
<u>10,167</u>	<u>8,275</u>	<u>2,228</u>	<u>39,032</u>	<u>8,333</u>
<u>\$ 10,167</u>	<u>\$ 8,315</u>	<u>\$ 2,228</u>	<u>\$ 39,032</u>	<u>\$ 8,406</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2005

		Special	
	Brownfield Redevelopment	K-9 Unit Sheriff	Correction Officers Training Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,518	\$ 612	\$ 20,001
Investments - restricted	-	-	-
Accounts receivable	3,909	-	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 5,427</b>	<b>\$ 612</b>	<b>\$ 20,001</b>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 58	\$ -
Accrued payroll	-	-	-
Deferred revenue	-	-	-
Due to other funds	-	-	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-0-</b>	<b>58</b>	<b>-0-</b>
<b>FUND BALANCES (DEFICIT)</b>			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	5,427	554	20,001
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b>5,427</b>	<b>554</b>	<b>20,001</b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<b>\$ 5,427</b>	<b>\$ 612</b>	<b>\$ 20,001</b>

Revenue				
Homeless Veterans Fund	Child Care - Juvenile Fund	C.D.B.G.	Social Welfare	Parks and Recreation
\$ 340	\$ -	\$ 80,731	\$ 63,236	\$ 65,101
-	-	-	-	-
-	11,228	-	-	711
-	5,356	-	-	-
-	-	-	-	-
<u>\$ 340</u>	<u>\$ 16,584</u>	<u>\$ 80,731</u>	<u>\$ 63,236</u>	<u>\$ 65,812</u>
\$ -	\$ 13,337	\$ 474	\$ -	\$ 1,291
-	647	-	-	659
-	-	-	-	-
-	-	-	-	-
-	-	11,471	38,025	-
-0-	13,984	11,945	38,025	1,950
-	-	-	-	-
-	-	-	-	-
340	2,600	68,786	25,211	63,862
-	-	-	-	-
-	-	-	-	-
<u>340</u>	<u>2,600</u>	<u>68,786</u>	<u>25,211</u>	<u>63,862</u>
<u>\$ 340</u>	<u>\$ 16,584</u>	<u>\$ 80,731</u>	<u>\$ 63,236</u>	<u>\$ 65,812</u>



Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2005

	Capital Projects		Debt
	Capital Improvement	Construction Fund	Mental Health Debt
ASSETS			
Cash and cash equivalents	\$ 20,093	\$ 103,560	\$ -
Investments - restricted	-	-	-
Accounts receivable	-	-	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
TOTAL ASSETS	<u>\$ 20,093</u>	<u>\$ 103,560</u>	<u>\$ -0-</u>
LIABILITIES AND FUND BALANCES (DEFICIT)			
LIABILITIES			
Accounts payable	\$ 4,144	\$ 51,404	\$ -
Accrued payroll	-	-	-
Deferred revenue	-	14,000	-
Due to other funds	-	300,000	-
Due to other governmental units	-	-	-
TOTAL LIABILITIES	4,144	365,404	-0-
FUND BALANCES (DEFICIT)			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	15,949	(261,844)	-
TOTAL FUND BALANCES (DEFICIT)	<u>15,949</u>	<u>(261,844)</u>	<u>-0-</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	<u>\$ 20,093</u>	<u>\$ 103,560</u>	<u>\$ -0-</u>

Service			Total Nonmajor Governmental Funds
Building Authority - Jail	Courthouse Renovation	Fairground Improvement	
\$ 14,893	\$ 16,015	\$ -	\$ 821,205
-	-	-	38,238
-	-	-	45,759
-	-	-	178,892
-	-	-	4,317
<u>\$ 14,893</u>	<u>\$ 16,015</u>	<u>\$ -0-</u>	<u>\$ 1,088,411</u>
\$ -	\$ -	\$ -	\$ 108,926
-	-	-	24,755
-	-	-	14,000
-	-	-	300,000
-	-	-	49,496
-0-	-0-	-0-	497,177
-	-	-	39,032
-	-	-	4,317
-	-	-	762,872
14,893	16,015	-	30,908
-	-	-	(245,895)
<u>14,893</u>	<u>16,015</u>	<u>-0-</u>	<u>591,234</u>
<u>\$ 14,893</u>	<u>\$ 16,015</u>	<u>\$ -0-</u>	<u>\$ 1,088,411</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended September 30, 2005

	Special		
	Friend of the Court	Mental Health Lease	Solid Waste Planning
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	449,684	-	-
Charges for services	42,872	-	65
Fines and forfeits	-	-	-
Interest and rents	-	48,806	-
Other	106	-	-
TOTAL REVENUES	492,662	48,806	65
EXPENDITURES			
Current			
General government	545,130	-	-
Public safety	-	-	-
Public works	-	-	10,129
Health and welfare	-	-	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	545,130	-0-	10,129
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(52,468)	48,806	(10,064)
OTHER FINANCING SOURCES (USES)			
Transfers in	53,000	-	-
Transfers out	-	(50,723)	-
TOTAL OTHER FINANCING SOURCES (USES)	53,000	(50,723)	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	532	(1,917)	(10,064)
Fund balances, beginning of year	33,415	72,448	10,951
Fund balances (deficit), end of year	\$ 33,947	\$ 70,531	\$ 887

Revenue

Building Inspection	Register of Deeds	Emergency Contingency	Drug Law Enforcement	Law Enforcement
\$ -	\$ -	\$ -	\$ -	\$ -
125,918	-	-	-	-
-	-	-	5,000	-
-	46,910	-	357	-
-	-	-	1,010	-
-	255	-	66	34
-	-	-	100	1,013
125,918	47,165	-0-	6,533	1,047
-	27,425	-	-	-
127,189	-	-	5,025	5,720
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
127,189	27,425	-0-	5,025	5,720
(1,271)	19,740	-0-	1,508	(4,673)
6,000	-	-	-	-
(4,401)	-	-	-	-
1,599	-0-	-0-	-0-	-0-
328	19,740	-0-	1,508	(4,673)
-	37,335	25,000	13,503	9,968
\$ 328	\$ 57,075	\$ 25,000	\$ 15,011	\$ 5,295

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2005

	Special		
	Law Library	Disaster Fund	Commission on Aging
REVENUES			
Taxes	\$ -	\$ -	\$ 483,836
Licenses and permits	-	-	-
Intergovernmental - Federal/State	-	-	320,490
Charges for services	-	-	27,334
Fines and forfeits	4,500	-	-
Interest and rents	-	-	4,462
Other	-	-	9,431
TOTAL REVENUES	4,500	-0-	845,553
EXPENDITURES			
Current			
General government	1,001	-	-
Public safety	-	-	-
Public works	-	-	-
Health and welfare	-	-	844,771
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	1,001	-0-	844,771
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,499	-0-	782
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(12,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(12,000)	-0-	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(8,501)	-0-	782
Fund balances, beginning of year	16,781	5,375	140,570
Fund balances (deficit), end of year	\$ 8,280	\$ 5,375	\$ 141,352

Revenue

D.A.R.E. Program	Secondary Road Patrol	Clinton County Child Care	COPS Grant	F.I.A. State Monies
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	114,284	182,863	149,621	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
4,246	-	-	-	189,958
<u>4,246</u>	<u>114,284</u>	<u>182,863</u>	<u>149,621</u>	<u>189,958</u>
4,246	114,284	182,863	149,621	189,958
-	-	-	-	-
3,871	158,600	-	163,169	-
-	-	-	-	-
-	-	229,523	-	199,468
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>3,871</u>	<u>158,600</u>	<u>229,523</u>	<u>163,169</u>	<u>199,468</u>
375	(44,316)	(46,660)	(13,548)	(9,510)
-	50,540	-	60,000	-
-	-	-	-	-
<u>-0-</u>	<u>50,540</u>	<u>-0-</u>	<u>60,000</u>	<u>-0-</u>
375	6,224	(46,660)	46,452	(9,510)
<u>6,827</u>	<u>7,837</u>	<u>68,253</u>	<u>43,527</u>	<u>19,394</u>
<u>\$ 7,202</u>	<u>\$ 14,061</u>	<u>\$ 21,593</u>	<u>\$ 89,979</u>	<u>\$ 9,884</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2005

	Special		
	Gratiot County Child Welfare	Soldiers & Sailors	Veteran Trust
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	-	-	7,104
Charges for services	-	-	-
Fines and forfeits	-	-	-
Interest and rents	-	-	-
Other	13,194	-	-
TOTAL REVENUES	13,194	-0-	7,104
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Health and welfare	168,936	1,249	6,502
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	168,936	1,249	6,502
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(155,742)	(1,249)	602
OTHER FINANCING SOURCES (USES)			
Transfers in	126,028	2,000	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	126,028	2,000	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(29,714)	751	602
Fund balances, beginning of year	72,460	1,234	272
Fund balances (deficit), end of year	\$ 42,746	\$ 1,985	\$ 874

Revenue				
Veterans Memorial	Animal Control	Marine Safety	Fraker Trust	Michigan Justice Training
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	4,429
-	1,450	-	-	-
-	-	-	-	-
56	-	-	727	-
-	-	1,055	-	-
56	1,450	1,055	727	4,429
-	-	-	-	-
-	2,005	1,259	-	7,382
-	-	-	-	-
-	-	-	-	-
-	-	-	2,464	-
-	-	-	-	-
-	-	-	-	-
-0-	2,005	1,259	2,464	7,382
56	(555)	(204)	(1,737)	(2,953)
-	-	1,000	-	-
-	-	-	-	-
-0-	-0-	1,000	-0-	-0-
56	(555)	796	(1,737)	(2,953)
10,111	8,830	1,432	40,769	11,286
\$ 10,167	\$ 8,275	\$ 2,228	\$ 39,032	\$ 8,333



Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2005

		Special	
	Brownfield Redevelopment	K-9 Unit Sheriff	Correction Officers Training Fund
REVENUES			
Taxes	\$ 9,047	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	-	-	-
Charges for services	1,000	-	12,900
Fines and forfeits	-	-	-
Interest and rents	-	-	-
Other	-	-	400
TOTAL REVENUES	10,047	-0-	13,300
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	931	98
Public works	-	-	-
Health and welfare	-	-	-
Community and economic development	9,460	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	9,460	931	98
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	587	(931)	13,202
OTHER FINANCING SOURCES (USES)			
Transfers in	-	600	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	600	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	587	(331)	13,202
Fund balances, beginning of year	4,840	885	6,799
Fund balances (deficit), end of year	\$ 5,427	\$ 554	\$ 20,001

Revenue				
Homeless Veterans Fund	Child Care - Juvenile Fund	C.D.B.G.	Social Welfare	Parks and Recreation
\$ -	\$ -	\$ -	\$ -	\$ 262,669
-	-	-	-	-
-	339,792	109,762	-	-
-	67,584	-	-	-
-	-	-	-	-
-	-	-	-	2,761
550	-	-	8,936	2,211
550	407,376	109,762	8,936	267,641
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
610	1,012,806	-	7,196	-
-	-	109,762	-	-
-	-	-	-	203,779
-	-	-	-	-
-	-	-	-	-
610	1,012,806	109,762	7,196	203,779
(60)	(605,430)	-0-	1,740	63,862
-	666,427	-	5,500	-
-	(66,028)	-	-	-
-0-	600,399	-0-	5,500	-0-
(60)	(5,031)	-0-	7,240	63,862
400	7,631	68,786	17,971	-
\$ 340	\$ 2,600	\$ 68,786	\$ 25,211	\$ 63,862

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2005

	Capital Projects		Debt
	Capital Improvement	Construction Fund	Mental Health Debt
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	-	-	-
Charges for services	2,793	-	-
Fines and forfeits	-	-	-
Interest and rents	102	65	-
Other	-	-	-
TOTAL REVENUES	2,895	65	-0-
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Health and welfare	-	-	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	161,261	261,909	-
Debt service	-	-	50,723
TOTAL EXPENDITURES	161,261	261,909	50,723
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(158,366)	(261,844)	(50,723)
OTHER FINANCING SOURCES (USES)			
Transfers in	163,618	-	50,723
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	163,618	-0-	50,723
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	5,252	(261,844)	-0-
Fund balances, beginning of year	10,697	-	-
Fund balances (deficit), end of year	\$ 15,949	\$ (261,844)	\$ -0-

Service			Total Nonmajor Governmental Funds
Building Authority - Jail	Courthouse Renovation	Fairground Improvement	
\$ -	\$ -	\$ -	\$ 755,552
-	-	-	125,918
-	-	-	1,683,029
-	-	-	203,265
-	-	-	5,510
115	157	-	57,606
-	-	-	231,200
115	157	-0-	3,062,080
-	-	-	573,556
-	-	-	475,249
-	-	-	10,129
-	-	-	2,471,061
-	-	-	119,222
-	-	-	206,243
-	-	-	423,170
142,713	197,081	7,745	398,262
142,713	197,081	7,745	4,676,892
(142,598)	(196,924)	(7,745)	(1,614,812)
142,713	196,531	7,745	1,532,425
-	-	-	(133,152)
142,713	196,531	7,745	1,399,273
115	(393)	-0-	(215,539)
14,778	16,408	-	806,773
\$ 14,893	\$ 16,015	\$ -0-	\$ 591,234

Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2005

	<u>Soil Erosion Inspection</u>	<u>Jail Commissary</u>	<u>Principal Residence Denial Interest</u>	<u>Tax Fees and Sale Proceeds</u>	<u>Total</u>
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 12,331	\$ 32,448	\$ 9,537	\$ 41,966	\$ 96,282
Accounts receivable	-	247	-	1,099	1,346
Due from other funds	-	-	4,892	-	4,892
<b>TOTAL ASSETS</b>	<b>12,331</b>	<b>32,695</b>	<b>14,429</b>	<b>43,065</b>	<b>102,520</b>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	69	4,509	-	431	5,009
Accrued payroll	1,523	-	-	-	1,523
<b>TOTAL LIABILITIES</b>	<b>1,592</b>	<b>4,509</b>	<b>-0-</b>	<b>431</b>	<b>6,532</b>
<b>NET ASSETS</b>					
Unrestricted	<u>\$ 10,739</u>	<u>\$ 28,186</u>	<u>\$ 14,429</u>	<u>\$ 42,634</u>	<u>\$ 95,988</u>

Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2005

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Tax Fees and Sale Proceeds	Total
OPERATING REVENUES					
Charges for services	\$ 44,327	\$ 40,517	\$ -	\$ 21,319	\$ 106,163
Other revenue	14	18,000	12,891	16,380	47,285
TOTAL OPERATING REVENUES	44,341	58,517	12,891	37,699	153,448
OPERATING EXPENSES					
Salaries	23,560	-	-	-	23,560
Fringe benefits	7,465	-	-	-	7,465
Contractual services	-	-	2,250	-	2,250
Supplies	525	7,471	-	-	7,996
Communication	204	-	-	-	204
Miscellaneous	1,848	41,072	-	11,076	53,996
TOTAL OPERATING EXPENSES	33,602	48,543	2,250	11,076	95,471
OPERATING INCOME	10,739	9,974	10,641	26,623	57,977
Net assets, beginning of year	-	18,212	3,788	-	22,000
Prior period adjustment	-	-	-	16,011	16,011
Net assets, end of year	\$ 10,739	\$ 28,186	\$ 14,429	\$ 42,634	\$ 95,988

Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2005

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Tax Fees and Sale Proceeds	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts from customers	\$ 44,341	\$ 58,651	\$ 7,999	\$ 36,600	\$ 147,591
Cash paid to suppliers	(2,571)	(48,365)	(2,250)	(10,645)	(63,831)
Cash paid to employees	(30,906)	-	-	-	(30,906)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	10,864	10,286	5,749	25,955	52,854
Restated cash and cash equivalents, beginning of year	1,467	22,162	3,788	16,011	43,428
Cash and cash equivalents, end of year	<u>\$ 12,331</u>	<u>\$ 32,448</u>	<u>\$ 9,537</u>	<u>\$ 41,966</u>	<u>\$ 96,282</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 10,739	\$ 9,974	\$ 10,641	\$ 26,623	\$ 57,977
Adjustments to reconcile operating income to net cash provided by operating activities					
(Increase) decrease in receivables	-	134	-	(1,099)	(965)
(Increase) in due from other funds	-	-	(4,892)	-	(4,892)
Increase in accounts payable	6	178	-	431	615
Increase in accrued liabilities	119	-	-	-	119
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 10,864</u>	<u>\$ 10,286</u>	<u>\$ 5,749</u>	<u>\$ 25,955</u>	<u>\$ 52,854</u>

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2005

	Fringe Benefits	Tile Fund	Flexible Spending	Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 86,132	\$ 12,982	\$ 1,576	\$ 100,690
Inventories	-	13,363	-	13,363
Accounts receivable	2,320	-	-	2,320
Prepays	140,639	-	-	140,639
<b>TOTAL ASSETS</b>	<b>229,091</b>	<b>26,345</b>	<b>1,576</b>	<b>257,012</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	53,665	-	-	53,665
Accrued liabilities	62,449	-	-	62,449
Due to other funds	2,100	-	500	2,600
<b>TOTAL LIABILITIES</b>	<b>118,214</b>	<b>-0-</b>	<b>500</b>	<b>118,714</b>
<b>NET ASSETS</b>				
Unrestricted	<u>\$ 110,877</u>	<u>\$ 26,345</u>	<u>\$ 1,076</u>	<u>\$ 138,298</u>



Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2005

	Fringe Benefits	Tile Fund	Flexible Spending	Total
OPERATING REVENUES				
Charges for services	\$ 2,051,643	\$ -	\$ -	\$ 2,051,643
Intergovernmental - local	-	36,144	-	36,144
Other revenue	-	5,800	27,257	33,057
TOTAL OPERATING REVENUES	2,051,643	41,944	27,257	2,120,844
OPERATING EXPENSES				
Fringe benefits	1,947,352	-	-	1,947,352
Miscellaneous	-	31,668	26,864	58,532
TOTAL OPERATING EXPENSES	1,947,352	31,668	26,864	2,005,884
OPERATING INCOME	104,291	10,276	393	114,960
Net assets, beginning of year	6,586	16,069	683	23,338
Net assets, end of year	\$ 110,877	\$ 26,345	\$ 1,076	\$ 138,298

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2005

	Fringe Benefits	Tile Fund	Flexible Spending	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from users	\$ 2,049,323	\$ 41,944	\$ 27,257	\$ 2,118,524
Cash paid to suppliers	-	(31,668)	(26,364)	(58,032)
Cash paid for employee benefits	(1,931,212)	-	-	(1,931,212)
NET CASH PROVIDED BY OPERATING ACTIVITIES	118,111	10,276	893	129,280
Cash and cash equivalents, beginning of year	(31,979)	2,706	683	(28,590)
Cash and cash equivalents, end of year	<u>\$ 86,132</u>	<u>\$ 12,982</u>	<u>\$ 1,576</u>	<u>\$ 100,690</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 104,291	\$ 10,276	\$ 393	\$ 114,960
Adjustments to reconcile operating income to net cash provided by operating activities				
(Increase) in receivables	(2,320)	-	-	(2,320)
(Increase) in prepaids	(31,599)	-	-	(31,599)
(Decrease) in accounts payable	(14,710)	-	-	(14,710)
Increase in accrued liabilities	62,449	-	-	62,449
Increase in due to other funds	-	-	500	500
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 118,111</u>	<u>\$ 10,276</u>	<u>\$ 893</u>	<u>\$ 129,280</u>

Gratiot County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

September 30, 2005

	Agency Funds		
	Trust and Agency	Library Fund (Penal Fines)	Total
ASSETS			
Cash and cash equivalents	\$ 1,193,725	\$ 82,895	\$ 1,276,620
Due from other governmental units	-	40,822	40,822
<b>TOTAL ASSETS</b>	<b>\$ 1,193,725</b>	<b>\$ 123,717</b>	<b>\$ 1,317,442</b>
LIABILITIES			
Undistributed collections payable	\$ -	\$ 123,717	\$ 123,717
Defendant bonds payable	76,241	-	76,241
Due to other governmental units	1,109,065	-	1,109,065
Due to individuals and agencies	8,419	-	8,419
<b>TOTAL LIABILITIES</b>	<b>\$ 1,193,725</b>	<b>\$ 123,717</b>	<b>\$ 1,317,442</b>

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - DRAINAGE DISTRICTS

September 30, 2005

	Debt Service		
	Drain Debt	No. 88 Drain	Maple River Drain
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
Interest receivable	-	-	-
Special assessments receivable	-	-	-
Due from other funds	-	-	-
TOTAL ASSETS	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Deferred revenue	-	-	-
Advances from other governmental units	-	-	-
Due to other funds	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
FUND BALANCES			
Fund balances			
Unreserved			
Designated for capital expenditures	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Capital Projects

Regular Drain	Revolving Drain	Revolving Drain Maintenance	Total
\$ 383,395	\$ 114,482	\$ 7,821	\$ 505,698
1,473	-	-	1,473
661,580	-	-	661,580
-	290,976	9,664	300,640
<u>\$ 1,046,448</u>	<u>\$ 405,458</u>	<u>\$ 17,485</u>	<u>\$ 1,469,391</u>
\$ 3,002	\$ 36,069	\$ 145	\$ 39,216
661,580	-	-	661,580
-	292,528	-	292,528
300,640	-	-	300,640
965,222	328,597	145	1,293,964
<u>81,226</u>	<u>76,861</u>	<u>17,340</u>	<u>175,427</u>
<u>\$ 1,046,448</u>	<u>\$ 405,458</u>	<u>\$ 17,485</u>	<u>\$ 1,469,391</u>

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - DRAINAGE DISTRICTS

September 30, 2005

**Total fund balance - governmental funds** \$ 175,427

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 5,604,587	
Accumulated depreciation is	<u>(973,161)</u>	
Capital assets, net		4,631,426

Long-term receivables are not available to pay for current period expenditures  
and are therefore deferred in the funds. These consist of:

Deferred revenue		661,580
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Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	1,280,595	
Accrued interest payable	<u>15,616</u>	
		<u>(1,296,211)</u>

**Net assets of governmental activities** \$ 4,172,222

Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - DRAINAGE DISTRICTS

Year Ended September 30, 2005

	Debt Service		
	Drain Debt Retirement	No. 88 Drain	Maple River Drain
REVENUES			
Charges for services	\$ -	\$ -	\$ -
Intergovernmental - local	-	-	-
Interest	-	49	129
Other			
Special assessments	-	-	-
Miscellaneous	-	-	-
TOTAL REVENUES	-0-	49	129
EXPENDITURES			
Public works	-	-	28
Debt service			
Principal	312,375	-	-
Interest and fiscal charges	34,724	-	263
TOTAL EXPENDITURES	347,099	-0-	291
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(347,099)	49	(162)
OTHER FINANCING SOURCES (USES)			
Transfer in	347,099	-	-
Transfer out	-	(15,721)	(41,209)
Long-term note proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	347,099	(15,721)	(41,209)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	-0-	(15,672)	(41,371)
Fund balances, beginning of year	-	15,672	41,371
Fund balances, end of year	\$ -0-	\$ -0-	\$ -0-

Capital Projects			
Regular Drain	Revolving Drain	Revolving Drain Maintenance	Total
\$ 13,200	\$ -	\$ 530	\$ 13,730
43,884	-	-	43,884
10,586	144	701	11,609
649,685	-	-	649,685
6,840	-	-	6,840
724,195	144	1,231	725,748
492,088	494,719	64,496	1,051,331
-	-	-	312,375
-	-	-	34,987
492,088	494,719	64,496	1,398,693
232,107	(494,575)	(63,265)	(672,945)
77,458	608,470	74,118	1,107,145
(991,767)	(54,233)	(4,215)	(1,107,145)
559,200	-	-	559,200
(355,109)	554,237	69,903	559,200
(123,002)	59,662	6,638	(113,745)
204,228	17,199	10,702	289,172
\$ 81,226	\$ 76,861	\$ 17,340	\$ 175,427



Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - DRAINAGE DISTRICTS

Year Ended September 30, 2005

**Net change in fund balances - total governmental funds** \$ (113,745)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 513,582	
Depreciation expense	<u>(143,536)</u>	
Excess of capital outlay over depreciation expense		370,046

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period, these amounts consist of:

(Decrease) in deferred revenue	(316,012)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt proceeds	(559,200)	
Bond principal retirement	<u>312,375</u>	
		(246,825)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>1,384</u>
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**Change in net assets of governmental activities** \$ (305,152)

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - BOARD OF PUBLIC WORKS

September 30, 2005

	Debt Service			Total
	North Star Sewer	Pompeii Sewer	Perrinton Water	
ASSETS				
Cash and cash equivalents	\$ -0-	\$ -0-	\$ 25,040	\$ 25,040
FUND BALANCES				
Fund balances				
Unreserved				
Undesignated, reported in Debt Service funds	\$ -0-	\$ -0-	\$ 25,040	\$ 25,040

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - BOARD OF PUBLIC WORKS

September 30, 2005

**Total fund balance - governmental funds** \$ 25,040

Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term receivables are not available to pay for current period expenditures and therefore are not reported as assets in the funds.

Long-term receivables at year-end consist of:

Lease receivable	765,000
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Accrued interest payable	\$ 16,977	
Direct county obligations	<u>765,000</u>	<u>(781,977)</u>

<b>Net assets of governmental activities</b>	<u><u>\$ 8,063</u></u>
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Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BOARD OF PUBLIC WORKS

Year Ended September 30, 2005

	Debt Service			Total
	North Star Sewer	Pompeii Sewer	Perrinton Water	
REVENUES				
Intergovernmental - local	\$ 27,550	\$ 26,655	\$ -	\$ 54,205
Interest	-	-	223	223
TOTAL REVENUES	27,550	26,655	223	54,428
EXPENDITURES				
Debt service				
Principal	10,000	10,000	25,000	45,000
Interest and fiscal charges	17,550	16,655	10,470	44,675
TOTAL EXPENDITURES	27,550	26,655	35,470	89,675
EXCESS OF REVENUES (UNDER) EXPENDITURES	-0-	-0-	(35,247)	(35,247)
Fund balances, beginning of year	-	-	60,287	60,287
Fund balances, end of year	\$ -0-	\$ -0-	\$ 25,040	\$ 25,040

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES - BOARD OF PUBLIC WORKS

Year Ended September 30, 2005

**Net change in fund balances - total governmental funds** \$ (35,247)

Amounts reported for governmental activities in the statement of activities are different because:

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Lease proceeds	(45,000)	
Bond principal retirement	<u>45,000</u>	-0-

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>1,190</u>
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**Change in net assets of governmental activities** \$ (34,057)

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - CENTRAL DISPATCH AUTHORITY

September 30, 2005

	Special Revenue		
	E-911	Phase II Upgrade	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 246,663	\$ 298,619	\$ 545,282
Accounts receivable	50,666	30,600	81,266
Interest receivable	678	-	678
TOTAL ASSETS	<u>\$ 298,007</u>	<u>\$ 329,219</u>	<u>\$ 627,226</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 432	\$ 698	\$ 1,130
Accrued liabilities	7,787	-	7,787
TOTAL LIABILITIES	8,219	698	8,917
FUND BALANCES			
Unreserved			
Undesignated	289,788	328,521	618,309
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 298,007</u>	<u>\$ 329,219</u>	<u>\$ 627,226</u>

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - CENTRAL DISPATCH AUTHORITY

September 30, 2005

**Total fund balance - governmental fund** \$ 618,309

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 126,365
Accumulated depreciation is	<u>(126,365)</u>

Capital assets, net	<u>-</u>
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<b>Net assets of governmental activities</b>	<u><u>\$ 618,309</u></u>
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Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - CENTRAL DISPATCH AUTHORITY

Year Ended September 30, 2005

	Special Revenue		
	E-911	Phase II Upgrade	Total
REVENUES			
Charges for services - user charges	\$ 626,330	\$ 114,037	\$ 740,367
Interest	4,010	4,948	8,958
TOTAL REVENUES	630,340	118,985	749,325
EXPENDITURES			
Current			
Public safety	551,611	45,662	597,273
EXCESS OF REVENUES OVER EXPENDITURES	78,729	73,323	152,052
Fund balances, beginning of year	211,059	255,198	466,257
Fund balances, end of year	\$ 289,788	\$ 328,521	\$ 618,309



Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL  
FUND TO THE STATEMENT OF ACTIVITIES - CENTRAL DISPATCH AUTHORITY

Year Ended September 30, 2005

<b>Net change in fund balance - governmental fund</b>	<b>\$</b>	<b>152,052</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense		<u>(1,333)</u>
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<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>150,719</u></b>
--	-----------	-----------------------

Principals

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Michael T. Gaffney, CPA  
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners  
Gratiot County  
Ithaca, Michigan

We have audited the basic financial statements of Gratiot County as of and for the year ended September 30, 2005, and have issued our report thereon dated December 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gratiot County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gratiot County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to administration and the Board of Commissioners of Gratiot County in a separate letter dated December 2, 2005.

This report is intended solely for the information and use of the administration and Board of Commissioners of Gratiot County, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 2, 2005

East Lansing ■ Rochester Hills ■ St. Johns

**Gratiot County, Michigan**

**SUPPLEMENTARY INFORMATION  
TO FINANCIAL STATEMENTS  
(FEDERAL AWARDS)**

**September 30, 2005**

Gratiot County, Michigan

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Principals

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

Compliance

We have audited the compliance of Gratiot County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended September 30, 2005. Gratiot County's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal program is the responsibility of Gratiot County's management. Our responsibility is to express an opinion on Gratiot County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Gratiot County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Gratiot County's compliance with those requirements.

In our opinion, Gratiot County complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending September 30, 2005.

Internal Control Over Compliance

The management of Gratiot County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Gratiot County's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of Gratiot County as of and for the year ended September 30, 2005, and have issued our report thereon dated December 2, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Gratiot County's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners and management of Gratiot County, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 2, 2005

Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Passed through Michigan State Housing Development Authority Community Development Block Grant (CDBG) Program State's Program 03/04 (Housing)	14.228		\$ 200,000	\$ 118,074	\$ 69,267	\$ 69,267
MSC-2003-0782-HOA						
U.S. DEPARTMENT OF JUSTICE Bureau of Justice Assistance 2005 Bullet Proof Vest Grant	16.607	N/A	12,950	-	12,950	12,950
Passed through Michigan Family Independence Agency Juvenile Accountability Incentive Block Grant	16.523					
2004 Basic Grant		N/A	15,000	12,500	2,500	2,500
2005 Basic Grant		N/A	15,000	-	13,750	13,750
(Direct Program) Office of Community Oriented Policing Services COPS Universal Hiring 03-06	16.710	2003UMWX0057	442,541	148,174	149,621	149,621
U.S. DEPARTMENT OF TRANSPORTATION Passed through Michigan Department of State Police Emergency Management Division 03/04 HMEP	20.703	N/A	3,494	2,374	1,120	1,120
			30,000	12,500	16,250	16,250

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year Revenues</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY Passed through Michigan Department of State Police State Homeland Security grants 2003 Part II SAP Grant 2003 SHSGP Exercise Grant 2004 SHSGP Equipment Grant	97.004	N/A N/A N/A	\$ 34,000 12,000 219,216	\$ 8,142 446 -	\$ 22,309 722 219,058	\$ 22,309 722 219,058
Emergency Management Performance Grant FY 2005 EMPG FY 2005 EMPG	97.067	N/A	265,216 16,869 16,118	8,588 16,618 -	242,089 251 14,113	242,089 251 14,113
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through State Department of Office on Services to the Aging and Region 7 Area Agency on Aging Title IIIB Special Programs for the Aging <sup>(d)</sup> (Chore, Personal Care, Case Coordination and Support, Senior Center, Repair) FY04/05	93.044	N/A	32,987 48,427	16,618 -	14,364 48,427	14,364 48,427
Title IIIE National Family Caregiver Support (Caregiver Training, Personal Care Homemaking, Waiver) FY04/05	93.052	N/A	17,792	-	17,792	17,792



Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED Passed through State Department of Office on Services to the Aging and Region 7 Area Agency on Aging - continued Medical Assistance Program Point of Service Waiver	93.778	N/A	\$ 24,258	\$ -	\$ 24,258	\$ 24,258
MMAP FY04/05	93.779	N/A	2,000	-	2,000	2,000
Passed through Michigan Family Independence Agency Promoting Safe & Stable Families 04/05 Grant	93.556	SFSC-04-29004-2	20,052	-	20,052	20,052
Child Support Enforcement <sup>(a)(c)</sup> (Title IV-D) Cooperative Reimbursement - Friend of the Court 04/05 Cooperative Reimbursement - Prosecuting Attorney 04/05 Medical Support Collection - Friend of the Court FY04/05 Incentive Payments <sup>(b)</sup> 2004-05 Regular	93.563	CS/FOC-05-29001  CS/PA-05-29002 CS/MED-05-29001 N/A	428,066 57,180 19,886 97,571 602,703	- - - - -0-	338,327 43,917 105 97,571 479,920	338,327 43,917 105 97,571 479,920
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 1,702,420	\$ 306,328	\$ 1,098,110	\$ 1,098,110

Gratiot County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2005

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Gratiot County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements, which are reconciled in Note C.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a)-(d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursement of these contracts is passed through the State Family Independence Agency (FIA). The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of Title IV-D eligible expenditures for the applicable grants. The entire amount paid by FIA for the reimbursed expenditures is considered Federal.
- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues and are 100% Federal.
- (c) Denotes program tested as "major program".
- (d) The amounts reported on the Schedule of Expenditures of Federal Awards passed through State Department of Office of Services to the Aging represent the Federal portion at 100% of the respective amounts except for the following percentages of the applicable grant expenditures:

Personal Care IIIIE & IIIB	23 %
Homemaking IIIIE	16
Waiver	56
Senior Center IIIB	32

**NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The following reconciles the Federal revenues reported in the September 30, 2005 basic financial statements to the expenditures of the County administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
GENERAL FUND				
CRP - Prosecuting Attorney	\$ 47,110	\$( 3,193 )	\$ -	\$ 43,917
Bullet Proof Vest Grant	16,109	( 3,159 )	-	12,950
Emergency management	257,573	-	-	257,573
Other programs	810,109	( 810,109 )	-	-0-
TOTAL GENERAL FUND	1,130,901	( 816,461 )	-0-	314,440

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

September 30, 2005

**NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
<b>SPECIAL REVENUE FUNDS</b>				
Friend of the Court	\$ 449,684	\$ ( 13,681 )	\$ -	\$ 436,003
Commission on Aging	320,490	( 228,013 )	-	92,477
CDBG	109,762	-	( 40,495 ) <sup>(1)</sup>	69,267
Child Care Juvenile Fund	339,792	( 303,490 )	-	36,302
COPS Grant	149,621	-	-	149,621
Other Programs	<u>313,680</u>	<u>( 313,680 )</u>	<u>-</u>	<u>-0-</u>
<b>TOTAL SPECIAL REVENUE FUNDS</b>	<u>1,683,029</u>	<u>( 858,864 )</u>	<u>( 53,211 )</u>	<u>783,670</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 2,813,930</u>	<u>\$ (1,675,325 )</u>	<u>\$ ( 53,211 )</u>	<u>\$ 1,098,110</u>

Following is a summary of the adjustments in the above schedule:

- <sup>(1)</sup> The adjustment related to the CDBG Fund represents the net effect of amounts that were contractually committed to projects at the end of the previous year (September 30, 2004) (\$53,211), that were expended in the current year and additional funds that had been contractually committed to projects as of the end of the current year, but not yet expended, \$12,716. The funding source considers these funds expended in the year in which they were committed which does not meet the expenditure recognition criteria of generally accepted accounting principles (GAAP). Therefore, the net amount of these two (2) adjustments (\$40,495) represents the amounts related to the difference between the funding source definition of expended and the recognition criteria of generally accepted accounting principles (GAAP). The expenditure amount, \$53,211, was recognized in the Schedule of Expenditures of Federal Awards as of September 30, 2004, but was recognized in the audited financial statements as revenue as of September 30, 2005, in accordance with GAAP. The \$12,716 was recognized in the Schedule of Expenditures of Federal Awards as of September 30, 2005, but will be recognized in the audited financial statements as revenue as of September 30, 2006, in accordance with GAAP.

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

We have audited the financial statements of Gratiot County, Michigan as of and for the year ended September 30, 2005, and have issued our report thereon dated December 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gratiot County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to administration and the Board of Commissioners of Gratiot County in a separate letter dated December 2, 2005.

This report is intended solely for the information of management, the Board of Commissioners and management of Gratiot County, pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 2, 2005

East Lansing ▪ Rochester Hills ▪ St. Johns

Gratiot County, Michigan

SCHEDULE OF FINDINGS

Year Ended September 30, 2005

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were no reportable conditions disclosed by the audit of the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings related to internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the Child Support Enforcement (Title IV-D) (CFDA 93.563) program. Total Federal expenditures for the year ended September 30, 2005 for the major program was \$479,920, which is approximately 44 percent of total Federal expenditures. It was determined that the County did qualify as a low-risk auditee.

The County had one (1) Type A program, the Child Support Enforcement Program (Title IV-D) (CFDA 93.563). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Gratiot County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2005

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.

Principals

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Aaron M. Stevens, CPA  
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MANAGEMENT LETTER

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Gratiot County, Michigan for the year ended September 30, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Budgets should be monitored and amended when necessary.

As noted in the financial statements, some of the activities of the County exceeded the amounts appropriated. The variances noted were in the General Fund and certain Special Revenue Funds.

The Michigan Public Act 621 of 1978, as amended, provides that the County adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the County monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

2. The Board should amend the County's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the County has not amended their investment policy to address the reporting requirements of GASB Statement No. 40. Deposit and investment resources often represent significant assets of the County's funds. These resources are necessary for the delivery of the County's services programs, or to carry out its fiduciary responsibilities. Effective for the year ended September 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the County's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the County's financial statements by GASB Statement No. 40.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated December 2, 2005.

This report is intended solely for the use of management and the Board of Commissioners of Gratiot County and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 2, 2005